AN INDUSTRIAL POLICY FRAMEWORK FOR ONTARIO

93-02275/

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JULY 1992

A MESSAGE FROM THE MINISTER

Our industrial policy is about change. It focuses on a concept of competitiveness made for Ontario. It addresses the need to upgrade Ontario's capacity to respond quickly and creatively to economic change.

The policy described in this paper is about long-term commitment to economic improvement, not about setting temporary targets for the short term.

With a common direction, we can respond to economic change in ways that reflect our values and our social responsibilities. Improving what Ontarians do, how we do it and how we relate to one another will increase our productivity, enhance our presence in world markets, and create a higher-skill, higher-wage economy that will raise our standard of living.

We are convinced that competitive advantage can and must be created — through the combined efforts of workers, investors, companies and governments. Focusing on six competitive fundamentals, we have defined a framework to move toward a higher value added economy that will reflect the values of Ontarians and raise our living standard.

Encouraging innovation, upgrading skills, increasing technological capacity, establishing home-based activities, developing linkages and networks, and building our international capabilities are the key elements that will drive economic renewal and create sustainable prosperity in Ontario.

We need regionally sensitive economic development that addresses the serious difficulties of resource industries in the North, the problems of agricultural regions and the deterioration of the manufacturing heartland. We also need a fair and equitable process of economic development that captures the benefits of full participation by women and other traditionally disadvantaged groups.

Crucial to this commitment is acknowledging the profound shift in public attitude towards the environment. This paper argues that sustainable development demands a combination of industrial, social and environmental

policies. Wise use of our natural resources, responsible commitments to environmental health and confident investment in the people of this province are fundamental to future prosperity.

But to be effective, this venture must be cooperative. Working together, we must recognize and pool our strengths to eliminate Ontario's traditional structural weaknesses. Creating competitive advantage requires joint efforts by Ontario's economic partners: in companies and unions; among firms within sectors; between companies and academic institutions. We must, in other words, cooperate and compete in ways that create wealth and foster sustainable development.

Our approach to industrial policy has a number of distinguishing features:

It is market-led, with an active role for Government.

It takes a broad view of competitiveness.

It focuses on creating capabilities and promoting winning activities — the competitive fundamentals — rather than trying to pick the winning companies or sectors of the future.

It is relevant to all sectors and regions of the economy. Resource industries in the North can benefit from higher value added activities and improvements in the competitive fundamentals, as can agriculture or manufacturing industries in Southern Ontario. Service industries can benefit in the same way as manufacturing and resource industries.

It takes the view that competition and cooperation are complementary. Competition drives innovation and defines the province's economic challenges. Cooperation helps us respond.

It treats moving to a higher value added economy as a process, not a destination. Increased competitiveness will result both from doing different things and doing things differently. The important thing is to keep moving in the right direction.

It recognizes that innovation is more than technological improvement. Innovation can occur at any point in the value chain.

The industrial policy recognizes the importance of environmental issues in economic development, the contribution that social development makes to enhancing competitiveness, and the importance of fairness in adjustment.

The policy is action-oriented. It involves Government action on a variety of fronts, because no single dimension of industrial policy is likely to be sufficient on its own.

Fiscal realities shape the approach to industrial policy. The Government intends to commit resources to this industrial policy. However, the money to support every good idea for economic renewal simply is not there. Consequently, we are reviewing existing programs for consistency with the framework and will be reallocating expenditures to support it. The Government believes this approach is both realistic and fair.

This paper on industrial policy is the first step in a dynamic process of change, the first step in a process of long-term constructive action. The paper also contains a series of initiatives. Some, like the Sector Partnership Fund, are already being implemented. Others require further discussion before the Government decides whether to proceed.

However, let me make it clear that the Government has already taken action to implement the policy.

In the short term, our 1992 Budget focused on three priorities -- jobs, deficit control and the maintenance of important public services. Our budget is helping to put Ontarians back to work after years of painful recession.

We are also working on the long term. The three-year $150 million Sector Partnership Fund will bring 10 ministries together with various sector organizations to implement the strategies in this paper. And through a new commitment from the Province, the Ontario Centres of Excellence will produce first-class research, development and commercialization of new technologies for another five years.

As this paper points out, though, much remains to be done. We need to work with business, unions, communities and institutions to develop further ways to implement the goals of this paper.

I welcome your suggestions. Please write to me:

Ed Philip
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Sincerely,

Ed Philip, Minister

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CHAPTER 1

ECONOMIC RENEWAL IN THE 1990s

Today, we are wrestling with some of the greatest economic challenges Ontario has ever faced. The last two years confirm the need to lay solid foundations for the future — for jobs, for success in world markets and for a lasting improvement in our standard of living. The future of every sector and region of the province depends on how companies, investors, workers, communities and governments respond to the challenges before us.

Change is the watchword of the 1990s as companies and entire industries restructure in response to the pressures of international competition. Global changes are having a major impact on the structure of the Ontario economy - on the kinds of companies that can succeed in Ontario, on what industries have to do to compete internationally, and on the jobs available to Ontario workers.

Ontario needs to establish broad-based agreement on what it takes to succeed in the global economy. We need a common sense of purpose that will help us improve our productivity, our competitiveness in the world, and our standard of living.

ONTARIO'S ECONOMIC RENEWAL AGENDA

The Government of Ontario is implementing a broad economic renewal agenda to create jobs, stimulate investment, and maintain public services.

An industrial policy is an important element of the economic renewal agenda. It will complement other government initiatives designed to promote community development, to stimulate green industries, to revamp the training system around the Ontario Training and Adjustment Board, to renew agricultural industry, to build a sustainable forestry sector and to provide innovative financing mechanisms to support long-term investment.

But neither an industrial policy nor the broader scope of the Province's economic renewal agenda encompasses all of the elements that affect our economic future. Policies that govern interest rates and exchange rates, inflation, aggregate demand and the overall economic climate will influence the evolution of the economy profoundly. These factors are largely in the hands of the federal government.

ANTICIPATING GLOBAL CHANGE

The international economic environment that Ontario faces in the 1990s is dramatically different from the world of the 1950s to mid-1980s. International competition is intensifying and the basis for success is changing.

Successive rounds of trade liberalization under the General Agreement on Tariffs and Trade (GATT) have led to major increases in world trade and the rise of multinational corporations. Regional trading blocs dominated by Japan, the U.S. and the European Community are emerging. Newly industrialized countries, such as Singapore, South Korea and Taiwan, are increasing competitive pressures for many industries in the advanced economies.

The pace of technological change has also quickened and has increased the importance of research and development as the basis for competitiveness in advanced economies. New technologies are changing the nature of economic activity. World-wide advances in information technology are improving productivity in all industries. Advanced materials are challenging resource

industries as they become substitutes for raw materials, as is the declining material intensity of production. For example, Japan's industrial production almost tripled between 1965 and 1985, while its consumption of energy and raw materials hardly increased.

Around the world, people's awareness and concern about the environment has grown. Governments are strengthening environmental standards and regulatory requirements. Companies are adopting more efficient production methods and are rushing to meet consumer demands for products and services that are more environmentally sound. These changes are still working themselves out in the economy.

Increases in world trade, the development and application of new technologies, and the creation of entirely new markets to satisfy environmental demands create enormous opportunities for Ontario. At the same time, however, the anticipated restructuring of the Ontario economy presents a challenge for business, workers, governments and communities.

A PROVINCIAL INDUSTRIAL POLICY

In today's world, industrial policy is not about setting out elaborate blueprints for the economy. Nor is it about establishing an array of expensive government support programs for industry. Rather, industrial policy is about providing a framework that enables all segments of business, labour and government to work together as partners. It also is a way to ensure that government support for industrial development is strategic. It builds on the foundation of a market economy and on an appreciation of the important role that competition plays in innovation.

This paper sets out a framework for a provincial industrial policy. Its goal is to pursue higher value added activities throughout the provincial economy. Higher value added activities allow the achievement of a higher standard of living, the creation of more and better jobs, and encourage the investment needed to restructure the economy successfully and equitably.

A higher value added economy employs highly skilled workers. It develops and deploys leading edge technology. Thus, it depends on a high level of research and development, and on creativity and innovation in the design and marketing of products and services. In a rapidly changing environment, increasing value added requires flexibility and adaptability on the part of managers, investors, workers and communities.

A higher value added economy is about change and responding effectively to change. It is about investors and managers who are aware of global developments, opportunities and challenges. It is about innovation on the job — about production processes, management practices and workplaces where workers don't "leave their heads at the door."

It is about working smarter — within companies, at the level of corporate strategy, across corporate sectors, within government. A higher value added economy is one in which companies, governments, workers and communities work together to maximize their common interests. In this view, industrial policy is about what government can do to facilitate the pursuit of higher value added activities in every sector of the economy.

The Government believes that the key to increasing value added is what we have called "the competitive fundamentals" — those key activities which support our capacity to respond effectively to change.

The Government is committed to taking action and to making changes to strengthen the competitive fundamentals. These changes will draw on the strengths of the past, but also look to the future. They will include changes in the way we invest, the way the Government works with companies, and the way we respond to economic change.

BUILDING ON OUR STRENGTHS TO MEET NEW CHALLENGES

Over the years, Ontario has enjoyed considerable economic success. This very success has masked some underlying factors that pose a challenge for our future ability to adjust to changes in our economic environment:

- Although Ontario out-performs Canada in R&D relative to GDP, our economy needs considerably more research and development spending and better technology diffusion.

- Ontario's financial community has experience in evaluating traditional types of investment, but needs to develop similar expertise in working with technology-oriented companies, to encourage their development.

- Linkages and networks of companies, industries and institutions enhance innovation and encourage cooperative activities, such as research, technology transfer and skills training. Ontario needs to do more to encourage such linkages.

- Significant R&D spending, highly skilled and high-paying jobs and an openness to innovation are characteristic of companies performing "home-base" activities. Some foreign multinationals undertake R&D and the full range of management functions in Ontario, but many do not. We need to do more to encourage the establishment of home-base activities in Ontario. At the same time, we need to focus our efforts to retain already existing investment in the province.

- Ontario's greatest strengths are the skills and ingenuity of its people. Ours is one of the most culturally diverse jurisdictions in the world. We have what it takes to be aggressive and succeed in international markets. However, Ontario continues to rely excessively on a single export market. We need to build on our strengths so we can diversify to take better advantage of global opportunities.

- Studies and practical experience show that productivity is directly related to workplace organization and management practices that provide workers with a measure of security and real involvement. Organizational innovation and empowerment of workers make good business sense.

- Increasingly, highly skilled workers are highly paid workers, regardless of the kind of work they do. An essential aspect of increasing productivity and competitiveness is a high level of investment in training. We have to build on recent increases in the level of training expenditure.

The central objective of this framework for industrial policy is to provide the basis for governments, business, workers and communities to work together to build on existing strengths to meet the challenges ahead.

Our made-for-Ontario industrial policy will strengthen the activities and capabilities that create competitive advantage, such as raising skill levels, increasing R&D, and encouraging innovation. It will help companies, workers and governments work together in achieving this goal.

In doing so, it will also reflect government priorities. These include:

- a commitment to environmentally responsible economic development. This can only be achieved if environmental considerations become embedded in economic decision-making

- a fair and equitable process of economic development that captures the benefits of full participation by women and other traditionally disadvantaged groups

WOMEN IN THE LABOUR FORCE

The participation rate of women in the labour force has increased dramatically in the last 25 years, from less than 40 percent in 1966 to over 60 percent in 1991. Although women now make up close to 46 percent of Ontario's labour force, they are significantly under-represented in many high-income occupations and, on average, earn much less than men. In 1990, 34.5 percent of Ontario women working full year, full time earned less than $20,000, compared to 15.8 percent of men.

Although some progress has been made in dealing with these problems, the pace has been slow. The increasing participation of women in the labour force has been accompanied by a gradual narrowing of the female/male earnings gap. On average, women earned 66 percent of what men earned in 1990, up from 63 percent in 1980. Although the gains have been very small, they have taken place in almost all occupations.

On the other hand, women have been increasing their share of jobs in managerial and professional occupations. From 1982 to 1991, over 72 percent of the increase in female employment was in the managerial and professional occupations. During the same period, the number of female managers and professionals increased by 74 percent, far surpassing the 10 percent increase for women employed in all the other occupational groupings. These occupations will become increasingly important in a higher-skill, higher-wage economy. They are also the fastest growing occupations, and the occupations where average male earnings are the highest.

These trends represent a step in the right direction. However, much more needs to be done to reduce income inequalities. Appropriate measures are needed to ensure that women participate more fully in the economy.

- ensuring the costs of structural change are shared and that those who are adversely affected are treated fairly

- a sensitivity to regional economic development concerns, including those of resource industries in the North, of agricultural regions, and of the manufacturing heartland

- innovative approaches to community development that empower communities to make new linkages across traditional business and institutional boundaries and to map out their own development strategies.

CHAPTER 2

CREATING COMPETITIVE ADVANTAGE

Competitive advantage refers to the capacity to produce goods and services that are valued by others. Competitive advantage is not static. It changes in response to the needs of customers and as the capabilities of other economies change. In advanced economies, competitive advantage increasingly can be created and is a cooperative effort.

The sources of competitive advantage change over time and vary from one economy to another. Many newly industrialized economies find that their primary source of competitive advantage is low-cost labour. To take advantage of this, a number of multi-national corporations are shifting production to these locations.

In advanced economies like Ontario's, highly skilled activities that support continuous innovation have become the primary source of competitive advantage. Our highly skilled workforce enables Ontario companies to produce products and services that are beyond the capacity of rivals from low-wage countries. More importantly, high-quality differentiated goods and services enable us to compete with other advanced economies.

As the sources of competitive advantage shift to innovation and the quality of the labour force, the role of government as a catalyst for creating competitive advantage becomes increasingly important.

But government alone cannot make Ontario more competitive. The basic requirement is that government must work as a partner with companies, workers and communities.

A BROADER VIEW OF COMPETITIVENESS

Competitiveness is important because it directly affects our standard of living. The challenge lies in understanding what competitiveness is and how to achieve it.

Some observers argue that competitiveness is only a cost issue. The Ontario Government has a broader view of competitiveness.

At the level of the firm, competitiveness is a result of having lower costs or differentiated products that can command premium prices, or both. Differentiation can result from higher quality products, better service, unusual features or any other characteristic that distinguishes what one company does from another. Firms must add value continually in relation to the inputs they use if they want to maintain competitiveness.

At the level of the economy, competitiveness is the result of economic and social development processes that create and continually re-create economic capabilities that are valued by others. A country is competitive when there is a good fit between its economic capabilities and the opportunities in international and domestic markets.

Competitive advantage must be created. In a high-income economy like Ontario's, lower costs and better products will increasingly depend on innovation and the application of skills. This approach constitutes a higher value added path of development, rather than a lower-wage path.

Social development is important to competitiveness because it enables more people to participate productively in the economy, strengthens the health and welfare of our citizens, and builds the education and skill level of our workers. Our competitiveness in the future will depend fundamentally on our people, their skills, their capacity to innovate, how they are organized in companies, the relevance and adaptability of our institutions, and whether we can develop mechanisms that enable people from different institutions and organizations to cooperate.

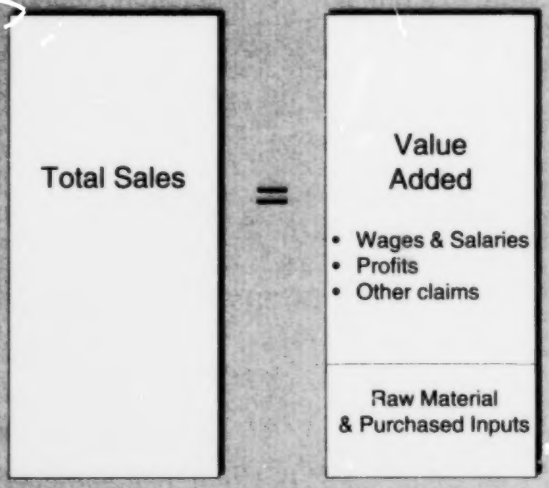
THE HIGHER VALUE ADDED CONCEPT

The organizing principle of our industrial policy - moving to higher value added - has the following features:

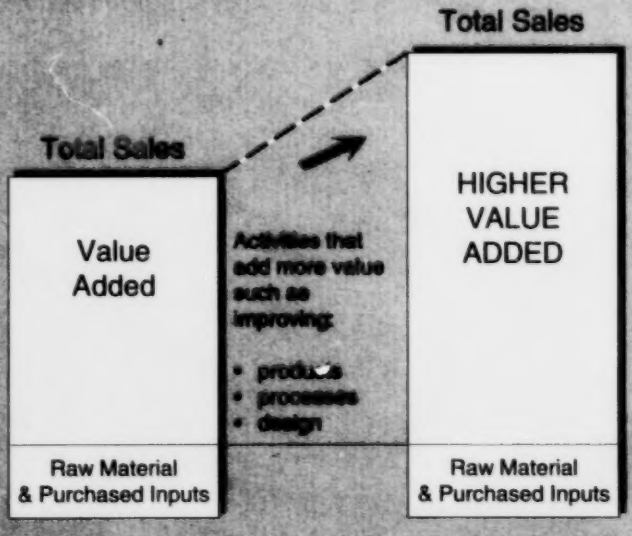
- It builds on existing strengths and addresses areas of weakness in the economy.
- It creates competitive advantages that are sustainable in international competition with other advanced economies.
- It reflects our values as a society.
- It provides a common ground for action by government, business, labour, and communities.

The government is convinced that a higher value added economy will lead to results that people care about — more and better jobs, more wealth creation, more profitable companies, and a higher standard of living.

THE HIGHER VALUE ADDED CONCEPT



Value added is the difference between a company's total sales and the cost of raw materials and the goods and services it buys from other companies. From value added companies pay wages and salaries, profits, and other claims. The higher the value added, the larger the income that can be shared by companies and workers.



Increasing value added means producing more with what you have - creating more "value" for customers. It is conceptually similar to achieving higher productivity by working smarter. A higher value added economy is a higher-skill, higher-wage economy.

A company can increase value added by becoming more efficient and reducing unit costs. Alternatively, it can produce something that is worth more to its customers. In today's competitive environment, companies are often finding that they have to do both.

ACHIEVING HIGHER VALUE ADDED

Improving Product Mix
Faced with the threat of U.S. imports after the Free Trade Agreement, Winona-based E.D. Smith's competitive strategy involved changing its product mix. The company sold off products that were not competitive. It focused on products such as jams, sauces and pie fillings that it could produce with quality and efficiency at higher margins.

Improving Quality
Guelph-based Linamar Machine Limited, a machining, high precision subcontractor has major clients such as Ford, GM and Xerox. In 1988 Linamar established a policy of providing products and services that meet customers' quality requirements. Employees contribute to the quality program through Team Oriented Problem Solving. Employees are trained in subjects related to the achievement of quality, such as statistical process control. Customers and suppliers provide input into Linamar's Advanced Quality Planning.

Developing New Products Through R&D
NCR Canada of Waterloo designed a cheque-processing workstation with new software and hardware interface features that resulted in a 10 percent increase in operator productivity. The new model requires 42 percent fewer parts, 68 percent fewer adjustments, and half the service calls. Manufacturing efficiency increased by 63 percent.

Innovative Marketing
After its initial success in introducing no-name brand goods to Ontario, Loblaws Companies Ltd. found a successful niche with its President's Choice products. These products are up-market, high-quality offerings. It was a marketing innovation for a retailer, rather than a manufacturer, to develop a brand name with a high-quality image that is transferable from product to product.

Improving Processes Through Organizational Innovation
Oakville's Menasco Aerospace, a designer and manufacturer of aircraft landing gear and flight control systems, improved productivity by organizing employees into work cells. Workers are now responsible for the quality of their own production, for some routine decisions and have input in solving problems. These measures helped the company achieve a 190 percent growth in sales from 1985 to 1989 and increase its market share from 5.2 to 15 percent in the world-wide market for landing gear.

GETTING THE FOCUS RIGHT: THE COMPETITIVE FUNDAMENTALS

The Government believes its most useful contribution is to encourage the development of the capabilities needed to increase value added activity throughout the economy. These are the competitive fundamentals for the Ontario economy: (1) continuous innovation; (2) raising skill levels; (3) increasing technological capability; (4) establishing companies' home-based activities in Ontario; (5) developing linkages and networks; and (6) building international capabilities.

SUPPORTING WINNING ACTIVITIES

A key question for industrial policy is how governments should work with industry to support the long-term growth of the economy. Ontario's industrial policy adopts the approach of promoting winning activities -- the competitive fundamentals -- rather than trying to pick the winning industries of the future. In a world of continuous change and restructuring, the fortunes of industries rise and fall, but an economy's competitive fundamentals are more enduring.

The winning activities approach has a number of advantages:

- It doesn't require the government to pick winning industries or champion companies of the future, something experience suggests that markets can do better than governments.
- It helps all sectors and regions in the province move to higher value added, and as a result, can link industrial policy and regional development.
- It leverages the government's resources because it supports the development of capabilities that have economy-wide, multi-industry benefits.
- It benefits workers, as well as companies, by focusing on skills upgrading and other activities that make workers more productive.

A central tenet of the Government's industrial policy is that value can be added in *all sectors* of the economy. The Government will work with sectors and strategic groups of companies on the basis of winning activities - the competitive fundamentals - not on the basis of the Government's prediction of whether they are in a winning or losing industry.

The competitive fundamentals are about upgrading capabilities. They operate on two levels: processes that work by upgrading the capabilities of people and companies; and processes that work by changing the structure of the economy. Both are important.

Continuous Innovation

Innovation means improving products, services and processes by increasing quality or reducing cost. Companies committed to continuous innovation embrace change. They respond quickly, making improvements at any point in the process of adding value, whether in marketing, financing, design, distribution channels, production processes, or in developing new products and services.

Increasingly, dynamic companies are taking innovative approaches to workplace organization based on the principles of flexibility and participation. Companies in Ontario and elsewhere are finding that the involvement of workers is critical to achieving the highest possible levels of innovative performance.

EXAMPLES OF INNOVATION

- Adcom Electronic developed an electronic videotape editing system that integrates videotape and video disk machines to make tape editing simpler and faster. The system has received enthusiastic reviews from professional editors in the film, television and commercial production industries.

- Enermodal Engineering Limited, a Waterloo consulting engineering company dedicated to energy conservation, has developed FRAME, a computer program that analyses heat loss through the window frame and edge of the glass. The program will help manufacturers design more energy efficient windows.

- Ault Foods Ltd. has created the world's first 100 percent milk-based fat substitute, called Dairylight. Dairylight has already been used in a new ice cream that has 40 percent fewer calories and 90 percent less fat than regular ice cream.

- Toronto's Studio Innova designed a CPR training manikin, the ACTAR 911 , that combines simplicity of design, low-cost manufacturing, functionality and portability. The manikin's simple design uses only five basic parts, compared to the 100 components used in conventional manikins. In addition, the ACTAR 911 costs 10 to 30 times less than a conventional training unit.

- Toronto-based Imax Corporation has developed the IMAX SOLIDO ™ high-tech film system that projects high quality, full colour, stereoscopic images on a wide-field dome screen. The 3-D image extends in front, above and to the sides of the viewer. Audiences wear technologically advanced, high-performance, cordless liquid crystal IMAX SOLIDO glasses which work as electronic shutters. The glasses, which are synchronized with the IMAX SOLIDO projector, decode the left and right eye images. This is the fourth presentation system developed by Imax.

- Inco has successfully developed an innovative "vertical crater retreat" (VCR) mining method. The VCR mining method involves using an "in the hole" drill that can break down into small components to reach the remotest parts of a mine. The new method reduces the need for labour-intensive undercut-and-fill mining. The percentage of ore mined by bulk mining techniques at Inco increased from 32 percent in 1981 to over 90 percent by the end of the decade. Along with changed job responsibilities and added training, VCR mining more than doubled mine productivity over the same period.

The value of innovation to the economy goes well beyond the returns that can be captured by a company, its employees and its shareholders. Innovation also creates new business opportunities. An innovative firm is likely to make demands that require its suppliers to upgrade and innovate. Its innovations may also spur other innovations by its customer firms. In this way, continuous innovation fuels the growth of our standard of living.

Raising Skill Levels

Ontario's most important investment is in its people. A highly skilled and multi-skilled workforce is one of the surest ways to encourage higher value added activity in all regions of the province.

The proportion of knowledge workers in the labour force has increased dramatically in the last 30 years. The share of the labour force accounted for by managerial, administrative, professional and technical occupations almost doubled between 1961 and 1986, increasing from 12.1 to 23.8 percent. These occupations accounted for almost half of the jobs created between 1985 and 1990.

Knowledge workers will continue to account for a large share of new jobs, and the skill requirements of virtually all jobs will increase in the 1990s.

A rise in skill levels creates new capabilities that make higher value added activities possible. With greater skills, workers become more flexible and creative and are capable of higher level performance. They are also better equipped to participate in changes in workplace organization and the introduction of advanced technology. The diverse sources of continuous innovation underscore the importance of the knowledge and ingenuity of the entire workforce.

Increasing Technological Capability

Increased technological capability encourages innovation in products and services since new features often depend on technological advances. Process innovations made possible by increased technological capability may lower costs; they may also enhance quality, timeliness, reliability or performance features.

Ontario's high income competitors have recognized the importance of technology and are investing a much larger share of their economic output in research and development.

Ontario invests only 1.65 percent of its GDP in R&D, whereas many of Ontario's high wage competitors are investing between 2.5 percent to 3.0 percent of GDP

in R&D. The low level of industrial R&D in Ontario reflects the small number of companies in technology-intensive industries with an Ontario home base. Despite relatively generous tax treatment of R&D, the level of industrial R&D in the province is too low. As with training, individual companies invest less in R&D than is optimal for the economy because they are unable to capture all of the benefits. The spillover benefits associated with R&D provide a rationale for government support.

Increasing technological capability also includes making effective use of technology transfer. For example, advanced manufacturing technologies are often embodied in state-of-the-art equipment and systems, and their rapid adoption contributes to growth in productivity.

Establishing Companies' Home-Base Activities in Ontario

Firms differ in the extent to which they locate key activities in Ontario. Of particular importance is where a firm locates its "home base" — the place where strategy is set, the core product and process technology is created and maintained, where essential skills reside, and where some part of sophisticated production takes place. Companies with a home base in Ontario provide better jobs and do more of the things that lead to higher value added activity in the province. The presence of a home base in an economy also has positive effects on other linked firms and industries. The first report of the Premier's Council, *Competing in the New Global Economy*, emphasized the significance of "indigenous" firms - those with home-based activities in Ontario - for the future economic development of the province.

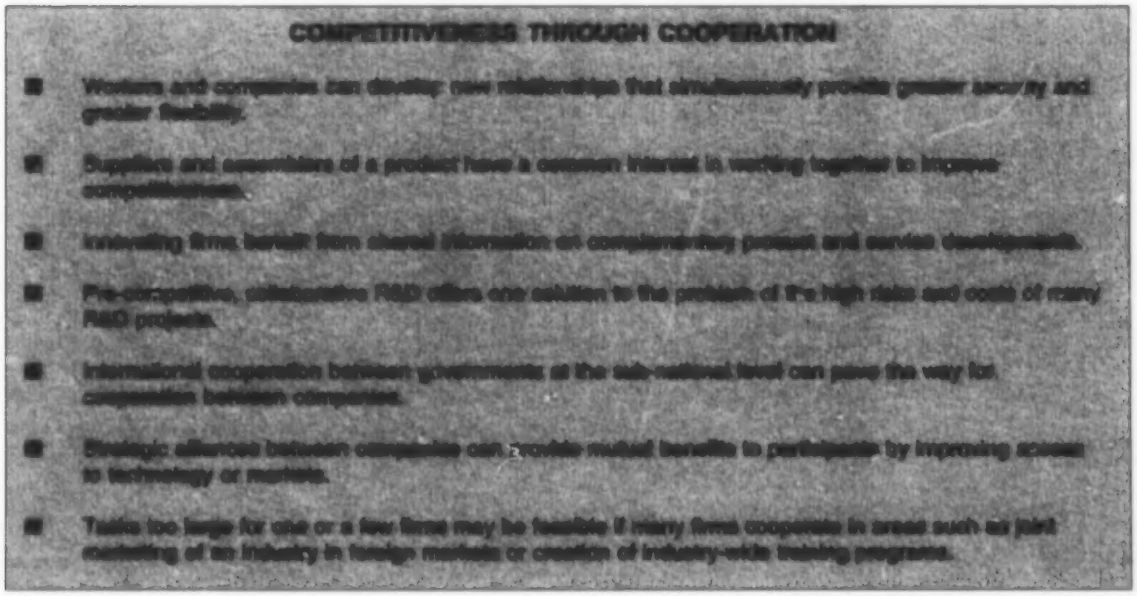
The notion of "home base" is about behaviour in Ontario, not about corporate ownership or control. Global corporations sometimes have multiple home bases — various countries are the home base for different lines of business. Foreign-controlled companies can act as home-based firms if they have a world product mandate or some other arrangement that effectively gives them strategic autonomy for their business operations in Ontario.

Developing more firms with home-base activities in the province will expand the domestic pool of technology and experienced management. Firms with home-base activities in Ontario are more likely to demand innovation from their

Ontario suppliers and to have valuable information on future industry developments to share with other firms. Such firms are also more likely to generate spin-off companies, thus sowing the seeds for future growth.

Developing Linkages and Networks

Networks of linked firms, industries and institutions within and across industrial sectors are important because they can achieve competitive advantage more readily than an individual firm or industry. Experience shows that an interplay of competitive and cooperative relationships among firms stimulates continuous innovation, technology transfer and skills training. Linkages also accelerate the information flow that guides strategic decisions.



Building International Capabilities

Enhanced international capabilities enable Ontario companies to act on global opportunities. More and more companies are subject to global competition. Even small companies with local or regional markets are exposed to international competitive pressures through import competition, or through suppliers or customers who compete internationally.

Ontario's economy is already highly trade-dependent. Approximately 44 percent of Ontario's economic output is exported — 27 percent to the U.S.,

4 percent to other international destinations and 13 percent to other provinces. The growth of most Ontario companies ultimately depends on exports because of the province's small domestic market.

Gaining international market share can be crucial to success in knowledge-based and technology-intensive industries. International alliances are becoming an important means of gaining access to the marketing and technological expertise of other companies. Alliances among Ontario companies can also be part of a strategy to establish an international presence.

International investment by Ontario companies is sometimes a prerequisite for access to foreign markets. In this sense, it complements trade. Both incoming and outgoing investment provide Ontario companies with access to capital and technology.

Small- and medium-sized companies face particular difficulties in building international capabilities because of lack of information and know-how. These challenges are compounded by language and cultural barriers.

MAKING CHANGES

The key industrial policy question for Ontario is how to create an innovative economy that has the capacity to increase value added continually. The key question for the Government is what it can contribute to the achievement of this goal.

There are three areas where Government actions can have the greatest benefit in strengthening the competitive fundamentals. These are:

- Changing the way companies and the Government invest for the future, by putting new emphasis on investing in people and infrastructure
- Changing how the Government works with companies, by emphasizing the development of sectoral strategies and support for strategic groups of companies
- Changing how we respond to economic change, by increasing the capacity of companies, government, workers and communities to cope with significant changes.

CHAPTER 3

CHANGING THE WAY WE INVEST FOR THE FUTURE

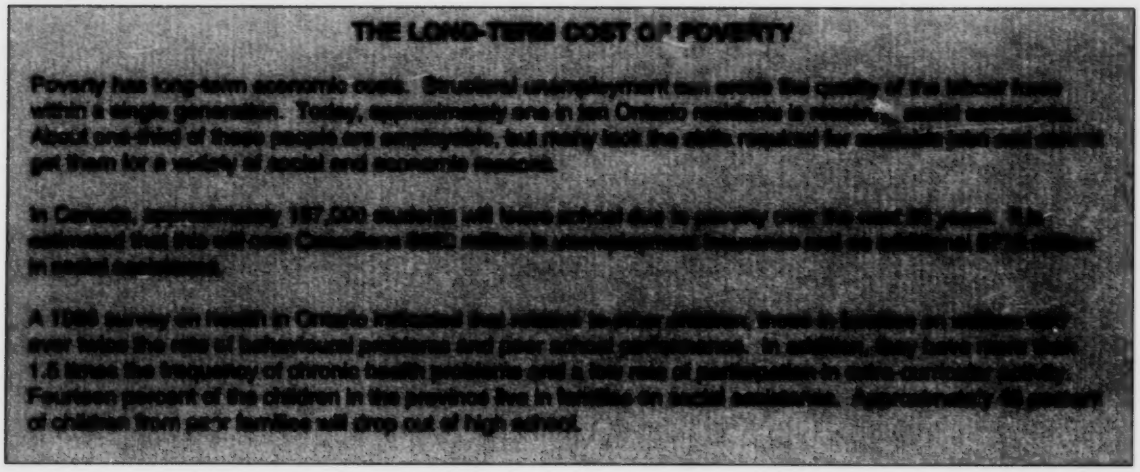
Investment spending, which enhances the future productive capacity of the economy, is vital to accelerating productivity growth. The Government has a legitimate, necessary, and critical role to play in helping to secure investment in the future.

Governments in advanced economies should promote the competitive advantage of firms. Investment in plant, technology, training, infrastructure and flexible organizations is critical for economic renewal in Ontario. This requires a joint effort among business, labour, and government. Government programs and private activities must be redirected to promote the kinds of change that lead to a more flexible and knowledge-intensive economy.

The integration of public policy to promote effective social and economic investment is particularly important in a relatively small and open economy such as Ontario's.

INVESTING IN PEOPLE

Ontario's future economic success depends upon its ability to compete through an educated, motivated and highly skilled workforce. Efforts to increase skill levels must be linked to social policies that promote equitable participation and fairness. By breaking down the barriers to employment, education and training for disadvantaged groups of people, Ontario can benefit from the talents and abilities of all of its citizens. These policies must also address barriers such as poverty and the lack of affordable day care. Poverty adversely affects school performance and without child care services many parents are unable to work or improve their skills.



The Government is acting today to provide Ontarians with the knowledge and skills they will need tomorrow:

- In 1992-1993 the Government will spend $930 million on training and adjustment programs, an increase of 24 percent from last year.

- The three-year, $1.1 billion **jobsOntario** *TrainingFund* announced in the Budget will train and employ up to 100,000 people who receive social assistance or who have exhausted Unemployment Insurance eligibility. The Fund also will substantially increase the number of subsidized child care spaces to help low-income parents get back to work.

- The Ontario Training and Adjustment Board (OTAB) will improve the training system so that it better serves the needs of employers, workers and employable people not currently in the labour force.

- Expansion of the apprenticeship system has already begun.

- Employment equity legislation will improve job opportunities and fairness in the labour market for women and traditionally disadvantaged groups of people.

INVESTING IN INFRASTRUCTURE

Public Infrastructure

The quality of infrastructure is a key determinant of productivity throughout the economy. The Government intends to:

- increase investment in public infrastructure

- tie public infrastructure decisions more closely to our economic development objectives.

The 1992 Budget announced **jobsOntario***Capital* — a five-year, $2.3 billion infrastructure investment program. The fund will help the Government refocus some of our public investment in infrastructure projects that are critical to an innovative economy — which, in turn, will ensure more and better jobs for the people of the province. This year alone, $500 million in funding under **jobsOntario***Capital* will result in nearly 10,000 direct and indirect jobs. Projects to be funded this year will help preserve the environment; improve energy efficiency in public buildings and institutions; increase the number of not-for-profit child care spaces; and expand and improve facilities for science and technology skills training.

Technological Infrastructure

The Government plays a significant role in improving Ontario's technological infrastructure:

- The Government has decided to continue the Ontario Centres of Excellence program for a second five year term, beginning in 1993. The Centres perform long-term research in technologies important to Ontario industry. The new operating guidelines for the Centres place increased emphasis on building greater university/industry linkages.

- In 1991, the Government significantly increased its grant to ORTECH International. ORTECH performs contract R&D and technical services for more than 2,000 companies annually and plays a significant role in technology transfer.

- The Government has agreed in principle to establish a new high-performance computing centre to service researchers in universities and industry. This support would provide the Ontario research community with access to large-scale computation services.

CHAPTER 4

CHANGING HOW WE WORK WITH COMPANIES

Putting the policy framework into action will change the way the Ontario Government works with companies.

The Government will:

- work with sectors and strategic groups of companies to solve common problems and encourage cooperative actions to enhance competitiveness

- improve the efficiency of its dealings with business, particularly small business entrepreneurs and firms interested in investing in Ontario.

While giving increased emphasis to working with sectors, the Government will continue to assist companies on an individual basis. The work of the Development Corporations of Ontario, the Ontario International Corporation and of other industrial assistance programs will become more focused on the policy objectives outlined in this paper.

EMPHASIZING SECTOR PARTNERSHIPS

The Government is placing new emphasis in its industrial development policies on the importance of working with sectors, in addition to individual companies. This change shifts support towards cooperative projects undertaken by groups of firms within a sector and towards sector-level initiatives that benefit the sector as a whole.

Sector-level cooperation expands the scope of what is possible. Working together, firms within a sector can accomplish projects beyond the capacity of an individual company or initiatives whose success depends on the participation of many firms in the sector. Sector-level initiatives also make it feasible to undertake investments that create widespread benefits for the sector as a whole and which may be difficult for an individual firm to justify.

For the Government, the new sector orientation is likely to increase the cost effectiveness of its economic development initiatives. A whole network of firms in a sector will potentially take advantage of any project benefits or participate in new sector initiatives. In addition, other firms in the sector can benefit from the spillover effect of the initiative or gain from the inter-firm linkages created. Finally, ongoing responsibility for these initiatives will not rest solely with government, but will emerge from and be implemented by cooperative decision-making processes.

In its work with sectors, the Government will not choose a set of "winning sectors" for preferential treatment. Instead, it will work with any sector that develops a collective voice and identifies useful projects to increase the sector's overall level of competitiveness. At the same time, the sectoral approach can guide the Government in concentrating its limited fiscal resources. The approach will help focus Government support on areas of economic activity in which there is a meaningful Ontario presence.

The Government is already working with a number of sectors on how they can become more innovative, productive and competitive. These include plastics, food processing, tourism, furniture and forest products, among others. Ministerial advisory committees have also been established for the telecommunications, automotive, aerospace and construction sectors.

THE SECTOR PARTNERSHIP FUND

The Sector Partnership Fund (SPF) will provide $150 million over three years to approved cooperative sector projects that strengthen the competitive fundamentals and promote sector development.

Developing Sectoral Technological Capability

The SPF will support organizations or projects bolstering a sector's technological capability, for example through pre-competitive research or technology diffusion. This fund will enable the Province to assist more initiatives such as:

- The Industrial Research and Development Institute, a new centre for applied R&D and technology diffusion for the tool, die, mould and related industries, established in Midland
- Project Bessemer, a Canadian steel industry joint venture R&D consortium to develop and commercialize direct strip casting suitable for low-carbon sheet steel.

Sector Promotion and Marketing

The SPF will assist sectors undertaking cooperative promotion and marketing to educate and reach customers. Current activities illustrating this approach include:

- Tourism advertising creating a common Ontario image
- Sector directories and trade missions organized on a sector basis
- Helping industrial designers demonstrate the competitive edge that design can provide
- Assistance to the Wine Council of Ontario for a generic marketing campaign
- Helping the Ontario road construction industry bring the International Roads Federation Convention to Ontario in 1997
- Promoting Ontario's film industry through support of the Toronto Festival of Festivals.

Sharing Sector Knowledge

The Government will help sectors develop their common knowledge base through the SPF. Some types of information are collected and disseminated efficiently on a sector basis.

Relevant sector knowledge might concern domestic market prospects, international opportunities, technology, competitors, capabilities of other Ontario firms, industry trends and issues, labour-management practices, regulations and standards, and success models.

Creating Specialized Infrastructure

Specialized infrastructure investments can increase the productivity and competitiveness of the firms in a particular sector.

- Ministry of Tourism and Recreation and industry representatives are exploring the merits of a province-wide computerized reservation system.
- Specialized institutions related to education and training can be key elements of sector infrastructure.
- Industry associations and labour organization are also important elements of sector infrastructure.

Focused Upgrading Programs

In some sectors, it may be appropriate for the Sector Partnership Fund to assist a group of companies making critical investments that will upgrade their capabilities and enable them to respond to higher value added market opportunities. In these instances, the upgrading program will benefit more than simply the companies directly assisted.

The Sector Partnership Fund, announced in the 1992 Ontario Budget, will provide financial support for approved initiatives that emerge from sectoral consultations between the Government and representatives of companies, workers and others.

Support will be given to the following types of sectoral activities:

- developing sectoral technological capability
- sector promotion and marketing
- sharing sector knowledge
- creating specialized infrastructure
- focused upgrading programs

Lead responsibility for sector development activities has been assigned to a wide range of Ministries across the Government. These assignments include ministries that have previously been engaged in efforts to develop and implement sector strategies, such as the Ministry of Agriculture and Food with the food processing industry or Culture and Communications with book publishers. They also include ministries which have not previously been expected to play an economic development role, such as the Ministry of Natural Resources for the forest products sector and the Ministry of Health for health industries.

These and other consultative processes will generate proposals for consideration by the recently announced Sector Partnership Fund. Candidate projects will be evaluated for support on the basis of their potential for strengthening the competitive fundamentals, and for leading to higher value added activity in the sector and elsewhere in the economy. In order to qualify for support, programs should be generally available to a wide range of firms in the sector or provide benefits to many firms in the sector.

TARGETING STRATEGIC GROUPS OF COMPANIES

Innovative Growth Firms

Innovative growth firms are typically small- or medium-sized companies with a home base in Ontario and a track record of exceptional growth. The sources of

growth for these firms can be new products, new ways of organizing production processes, innovative management of technology, creative marketing or original design ideas.

Innovative growth firms pull other firms along with them by encouraging innovation on the part of both suppliers and customers. Innovative growth firms are, in effect, conducting business experiments. The creation and growth of such path-breaking companies should be encouraged.

EXAMPLES OF INNOVATIVE GROWTH COMPANIES

PHOTOVAC INC.
The Thornhill-based manufacturer anticipated a demand among chemical manufacturers, environmentalists, and emergency response teams for a device to sniff out pollutants underground or in the air. It developed a rugged, reliable product that has become an international sales success: exports accounted for 85 percent of its $20 million in sales in 1991. A continuously innovating firm, Photovac correctly anticipated the needs of new types of customers to expand its markets. Now soft drink bottlers in Europe and South America utilize its technology, and air quality monitors for the workplace are sold in the U.S. and Japan. Photovac has maintained its competitive edge by developing new products; it has spent over $1 million in R&D on a hand-held monitor that provides instant identification of each pollutant present.

COM DEV
COM DEV, based in Cambridge, dominates the world market for communications-satellite multiplexing and switching equipment. The company has supplied technology to every Canadian space program in the past 15 years, and has participated in 40 international programs. COM DEV's high-tech focus has translated to consistent sales increases of 20 percent to 25 percent annually. Revenues for 1991 topped $50 million.

CFM INC.
CFM Inc. of Mississauga is Canada's largest natural gas fireplace manufacturer. The company holds 10 gas fireplace patents in North America, and has annual sales in excess of $15 million. Sales are still growing at 30 percent annually.

LINDA LUNDSTROM LTD.
Linda Lundstrom Ltd.'s success is attributable to its strategic approach to product development and its use of unique fabrics and colours that are formulated by Lundstrom herself. Eight years ago, Linda Lundstrom set out to design and develop a range of products that were uniquely Canadian in appearance. LAPAPKA, an Inuit-like parka, is one of these products and is an export success. For the past six years, the company has experienced an average annual growth rate of 32 percent. It has 75 employees and annual sales of more than $7 million.

COREL CORP.
The Ottawa firm Corel has developed a sophisticated computer graphics software program that has become the program of choice for many desk-top publishers. The market for this product has increased with the success of an operating system by Microsoft Corporation. Corel's new software program has helped increase the company's revenues from $21.7 million in 1989 to $52.2 million for the year ended November 30, 1991. Employment has increased from a relatively small number in 1985 to approximately 240.

INTERNATIONAL SOURCE OF ERGONOMICS LTD.
International Source of Ergonomics Ltd., a Mississauga manufacturer of ergonomic office and in-home workplace furnishings, developed an innovative transportation and packaging method. All of the company's products are designed to be shipped "knocked down". Shipping costs are reduced, because this "knocked down" method requires one-fifth of the space required in normal shipping. International Source of Ergonomics' 1991 sales were $15 million, 30 percent more than in the previous year. The company's employment has expanded from 50 to 80 in the past two years.

The rapid expansion of innovative growth firms requires the clearing of both financing and management hurdles. The Ontario Government is taking action to help:

- The Government has proposed the creation of an Ontario Investment Fund to provide long-term patient capital and build new linkages and expertise to support innovative, high-productivity companies.

- Labour-Sponsored Investment Funds, investing in small- and medium-sized companies, will benefit from incentives under the Ontario Investment and Worker Ownership Program, and will improve the availability of equity financing for Ontario companies trying to grow or restructure.

The Ontario Investment Fund has significant potential to enlarge the province's base of innovative growth companies and R&D performers. The proposed Fund is intended to improve the availability of long-term equity and management expertise for such companies, which, studies have shown often have difficulty attracting the long-term financing they need from knowledgeable investors.

The Government intends to create a new Ontario Innovation and Productivity Service. Its mandate will be to provide expert advice to assist small- and medium-sized innovative growth firms in upgrading their operations and overcoming hurdles to further expansion. The Service will provide advice on technology, management practices, financing, international marketing, organizational innovation, quality improvement and training. It will draw on both private and public sector expertise.

R&D Performers

There were approximately 1,500 R&D performers in Ontario in 1989. Companies with a home base in Ontario perform a disproportionately large share of research and development. The goal of the Government's industrial R&D policy is to increase the number of R&D performers and the amount and quality of R&D carried out in Ontario.

The Government's commitment to supporting R&D performers is clear:

- The Government enacted the R&D Super Allowance in 1990 and in the 1992 Budget announced its intention to parallel proposed federal changes to broaden eligibility and simplify administration of R&D incentives.

- The Ontario Technology Fund consists of ongoing programs that directly and indirectly provide support for R&D performers. For example, the Industry Research Program has provided funding for more than 20 collaborative R&D projects.

MAKING DEALINGS WITH BUSINESS MORE EFFICIENT

Clearing the Path for Business Success

The Government is looking for ways to deliver services to business more effectively, especially to small business entrepreneurs and to businesses interested in investing in Ontario. Ontario has more than 300,000 small businesses employing more than 1.5 million people. They provided about 75 percent of the new jobs in the economy between 1978 and 1988.

The Government believes that the contribution of small business to the economy could be even greater if the paper burden were reduced and greater advantage were taken of new technology in delivering provincial services. It will establish a new initiative, Clearing the Path for Business Success. Focusing on small business entrepreneurs initially, this will involve:

- Coordinating the application processes for business start-ups. The Government will establish a single local address or a province-wide service where new business owners can obtain all applicable forms and receive advice on relevant regulations.

- Working to reduce the paper burden for small businesses. A task force will be established to rationalize and integrate provincial reporting, filing and remitting requirements for small business where it is practical and cost-efficient to do so. One idea, among others that will be examined, is developing a unified tax return system for small business.

These initiatives were developed by the Ontario Government's Committee of Parliamentary Assistants for Small Business. The Committee will continue to consult with small business representatives and associations.

Improving Project Regulation

The Ministry of Municipal Affairs is moving to clear the backlog at the Ontario Municipal Board. The Government has appointed a special facilitator to expedite public and private development projects, helping to move them through the regulatory process, and is looking for ways to speed up these decisions.

The Government is working to simplify the environmental assessment process, while preserving high standards of environmental protection.

Investment Development

The Government recognizes the importance of attracting and retaining investment, and will make organizational changes to improve its handling of investment opportunities. The Ministry of Industry, Trade and Technology will establish an Investment Development Office to link potential investors and the information they need to make investment decisions.

The Investment Development Office will seek investment from companies already established in Ontario and from companies around the world. It will provide "one-stop shopping" for potential investors and will help them obtain approvals from government ministries. A new Ontario Investment Centre within the Investment Development Office will provide detailed and up-to-date information to investors who are choosing a site for new investment. Ontario communities will be invited to use the Centre to showcase their infrastructure, industrial facilities and cultural assets, and the skills of their local workforce.

CHAPTER 5

CHANGING THE WAY WE MANAGE ECONOMIC CHANGE

An essential element of competitiveness is the ability to anticipate and respond quickly to economic change. Four key forces of change are significantly affecting the Ontario economy:

- The greening of the economy
- Changes in the international trade environment
- Organizational innovation
- Adjustment in response to structural change.

Government action is only one part of the equation for changing the way we manage change. The Government is prepared to work cooperatively to help create a more adaptable economy.

THE GREENING OF THE ECONOMY

The move to a greener economy represents a major change in direction for producers, consumers and governments alike. The Government believes that the process of building capabilities must reflect a commitment to sustainable development. This will require:

- The development of strong green industries in Ontario. Ontario has an opportunity to capitalize on an emerging global market niche in green and environmentally sustainable products and services. The Government is developing a Green Industry Strategy to make Ontario a leading producer and exporter of environmental goods and services.

- The greening of existing industries. Market forces and government regulation are embedding environmental considerations in the decision-making processes of all firms. There is widespread recognition of the need to move away from an approach that relies on controlling environmentally damaging wastes and emissions to one that emphasizes reform of production processes to reduce or eliminate environmental damage.

- Improvements in energy efficiency. The Government has developed an *Energy Efficiency and Conservation Framework*, which will guide investment decisions. Its basic message is that investment in energy efficiency provides an economic return and can make Ontario more competitive.

- Ensuring that economic development is environmentally sustainable. The Sewell Commission on the Planning Process will advise the Government on ways of improving the environmental impact and energy efficiency of land-use patterns.

The environment is a global issue. Governments are just beginning to respond to a profound shift in public values and attitudes towards the environment. This shift reflects a growing awareness of the risks and costs of environmental degradation. In turn, this recognition has spawned an entirely new set of markets and caused companies to revamp both their products and their production processes.

Sustainable development increasingly is becoming a long-run objective of governments throughout the world. Acting now (rather than later) to green the economy is an investment in long-run competitiveness. It is a key element in moving to higher value added activities and strengthening the competitive fundamentals for several reasons.

First, the market for environmentally friendly products and services is growing quickly in response to changing consumer values. This trend reaches back to suppliers of intermediate goods and services whose customers are seeking to improve the "greenness" of their own products through innovations on the part of their suppliers.

Second, energy efficiency can improve cost competitiveness, as many companies have already discovered, in addition to the benefits to the broader economy.

Third, environmentally conscious behaviour will affect access to international markets. Environmental standards are an issue in the negotiation of international trade agreements. They could easily become a new form of non-tariff barrier for companies unable to meet them.

Fourth, Ontario companies will need to be able to meet the terms of international environmental agreements, which are rapidly becoming an instrument of choice for dealing with the spillover effects associated with global pollution. For example, 74 nations have signed the Montreal protocol on chlorofluorocarbons (CFCs), which commits them to a 50 percent reduction in emissions of these ozone-damaging chemicals by the year 1998. Many such agreements will emerge to prevent companies from seeking pollution havens.

Finally, companies can gain competitive advantage by moving into markets for green products and services early and gaining large market shares before their competitors enter. In a real sense, environmental control and regulation can be very good for business. A recent study completed for the Government projects that environmental companies will have some of the highest growth rates of any commercial sector in the years ahead. It also notes huge export markets in the pollution control business.

PROVINCIAL ENVIRONMENTAL INITIATIVES

Green Industry Strategy
The Ministry of Energy is leading this cross-Ministry initiative. The strategy will be an important catalyst to Ontario high technology sectors that focus on the creation and adaptation of new "green" technologies and innovations.

Framework for Energy Efficiency and Conservation in Ontario
Developed by the Ministry of Energy, the framework identifies new and existing aggressive initiatives to help Ontario become more energy efficient and thereby promote a more competitive economy.

Ontario Hydro's Demand Management Program
The most ambitious demand management program in North America, Hydro has targeted almost 9860 megawatts in electricity savings by the year 2014 (representing almost one quarter of current capacity).

Environmental Technologies Program
This program supports the research and development of new technologies to meet global demands of overcoming environmentally harmful practices. Commercialization of such technologies has great export potential. Preference is given to technologies that prevent or reduce pollution at the source. Examples of current development projects include:

- A technique to use roofing shingle waste to make roads. This technology could reduce the 450,000 tonnes of roofing waste dumped annually in Canada by 60 percent.
- A process to reduce and recycle toxic cyanide discharges from gold mills. The new process is environmentally friendly, less expensive and more efficient than existing methods.
- A technology to produce cleaner and safer drinking water. This process would be less expensive, require smaller installations and produce fewer undesirable by-products than existing treatment methods.

Environmental Research Program
This program has supported 800 research projects at universities, laboratories and public agencies. Ontario is funding research on the production of ethanol from waste paper, the spread of zebra mussels in the Great Lakes, and the extent and impact of ozone depletion.

CHANGES IN THE INTERNATIONAL TRADE ENVIRONMENT

The international trade environment is changing: so must Ontario.

Changes in the international trade environment are the result of a combination of changes in international trade rules, the creation of regional trading blocs, the opening of new markets, historic changes in economic power and opportunity, and trade-enhancing technological changes.

To help the Ontario economy adapt to these changes, the Government will:

- Continue to advocate Ontario's trade interests to the federal government and vigorously assist Ontario exporters caught in trade disputes.

ONTARIO'S INTERNATIONAL TRADE POLICY OBJECTIVES

Ontario's broad international trade objectives are consistent with the competitive fundamentals and the goal of increasing value added. These trade policy objectives include:

- Enhanced access to foreign markets through the reduction of tariffs and non-tariff measures
- The greatest possible security of access to foreign markets through the development of clear, enforceable trade rules and fast, reliable dispute resolution mechanisms
- Improvement in federal-provincial relationships for the development of Canada's trade policies, the implementation of trade agreements, and the resolution of trade disputes
- Maintenance of the federal and provincial governments' capacity to deliver social and economic development programs and regulate in the public interest in such areas as consumer protection, health and safety, the environment, and financial security
- Provision, on the part of the federal government, of adequate industrial and labour adjustment programs for those most affected by the transition to a more liberalized trade environment.

- Re-orient trade assistance programs to help small- and medium-sized businesses take advantage of export opportunities resulting from changes in international trade rules and conditions. This will include better information services to make small businesses aware of potential export and investment opportunities abroad.

- Continue to assist companies in situations where a government presence is helpful in winning foreign contracts.

The 1990s will be a time of unprecedented opportunities for internationally-oriented Ontario companies to gain competitive advantage in global markets. The province will continue to benefit from its proximity to the United States — the largest and most productive economy in the world. But other trade and investment opportunities will increase in importance. The European Community is forming a rich, cohesive trading bloc. An Asian-Pacific trading bloc, centered on Japan, may also emerge. The economies of South-East Asia and Latin America are expected to lead the world in economic growth during the next decade. Significant opportunities will also develop as the Eastern European economies restructure and grow.

Changes in international trade rules are also likely to create new opportunities and problems.

The value of world merchandise trade increased almost 300 percent in the first two decades after the introduction of the General Agreement on Tariffs and Trade (GATT) in 1947. It subsequently increased by 750 percent between 1967 and 1979 after the Kennedy Round, and almost doubled between 1979 and 1989 after the Tokyo Round.

A successful conclusion to the current Uruguay Round likely will result in an increase in the volume of world trade. Other developments, such as the current NAFTA trade negotiations and the reduction of inter-provincial trade barriers, could redefine the trading context within which Ontario will operate. Because it is a small, open economy, Ontario has a large stake in clear, enforceable international trade rules.

The Government has concerns about the GATT and NAFTA negotiations currently under way. Because the Province is not a party to either the GATT or the NAFTA negotiations, the Government has limited influence over the outcomes. It is concerned about the potential impact of GATT and NAFTA agreements on Ontario industry, rising protectionism in the United States and the accompanying, unjustified harassment of Ontario exporters.

Regardless of the outcome of the negotiations, the Ontario economy will have to adapt. The move to higher value added activity depends on making this adjustment effectively.

ADJUSTMENT

Industrial restructuring and labour adjustment necessarily go hand-in-hand.

Since the benefits of moving to higher value added activities are shared widely throughout society, it is unfair to expect a relatively small number of workers and communities to bear the brunt of the costs of adjustment. If equitable mechanisms for sharing the costs of adjustment do not exist, then it is reasonable to expect those whose jobs, incomes or lifestyles are adversely affected to resist change.

The Government is taking a major step toward resolving this dilemma with the creation of the Ontario Training and Adjustment Board. In addition to its role in revamping workplace and apprenticeship training, OTAB's role in labour force entry and re-entry training and in providing adjustment programs and services will increase the training system's responsiveness to the needs of workers, companies, industrial sectors and communities.

However, the job losses accompanying restructuring by large firms frequently raise the pressure on the Government to intervene. Restructuring a large company can require large-scale public assistance. It can also increase the recipient's vulnerability to trade actions by companies in other countries.

There is no single mechanism that can deal effectively with the adjustment problems arising from these large restructuring situations. Some can be addressed by Government training and adjustment programs. Recent experience indicates that the most successful approaches jointly involve employers, employees, governments and the community. This can be seen at Algoma Steel in Sault Ste. Marie, where management, the union, the Canadian Steel Trade and Employment Congress (a joint steel industry-United Steelworkers body) and Sault College were able to devise creative training and education programs to meet the needs of workers displaced by the restructuring of the company. A different, but equally cooperative approach was put in place in Kapuskasing to save jobs and invest in the future of the Spruce Falls pulp and paper mill.

EMPLOYMENT ADJUSTMENT PROGRAMS

THE OFFICE OF LABOUR ADJUSTMENT (OLA) coordinates services provided to displaced workers in plant, sectoral and community-based adjustment committees. In 1991/1992, the OLA helped 30,000 workers in 150 plant-level committees. Costs for the committees are shared by the OLA, the federal government and companies. In 1992/1993, the OLA's budget increased to $26.8 million from $7.5 million in 1991/1992.

THE EMPLOYEE WAGE PROTECTION FUND has a commitment of up to $50 million to compensate workers for wages, vacation pay, severance and termination pay they are owed as a result of a default by their employers.

A SECTORAL HUMAN RESOURCE COMMITTEE has been established for the furniture and apparel sectors. Ontario is cooperating with the federal government, management and labour in their creation.

COMMUNITY COMMITTEES are now operating in Wawa, North Bay and Milverton, Kapuskasing, Elliot Lake, and Temagami-Timiskaming. Representatives from the municipalities, workers and management work together to try to find alternatives to plant closures and downsizing.

TRANSITIONS provides a $5,000 work or institutional training credit to workers age 45 or older. Funding for this program was increased to $9.9 million in 1992/1993 from $7 million in 1991/1992 and $4 million in 1990/1991. There were 10,000 applications for the program in 1991/1992, an increase of 82 percent from the previous year.

HELP CENTRES provide employment and vocational counselling. Funding for the 16 Help Centres in Ontario has been enhanced to expand their activities.

BUSINESS START-UP ASSISTANCE is provided to displaced workers by MITT's Small Business Division, the Ontario Office of Labour Adjustment and the Federal Industrial Adjustment Service.

ORGANIZATIONAL INNOVATION

Improving flexibility in workplaces and developing the participation and cooperation needed to sustain continuous innovation are central to a more productive economy. Both on and off the job, empowering workers and communities is based on the idea that responding to change depends on commitment, rather than control. Within the business sector, the development of information networks increases the capacity for effective training measures and technology transfer.

Government actions to encourage organizational innovation will include:

- Investing in technological infrastructure that links the private sector with knowledge-generating institutions such as universities. For example, the Centres of Excellence stimulate cooperation between the private sector and universities, the University Research Incentive Fund increases interaction between companies and university researchers, and the Industry Research Program supports collaborative R&D projects.

- Increasing worker security. The Government believes that there is a direct relationship between worker security and workplace flexibility. Workers are more likely to accept or suggest significant changes in the organization of work, such as less rigid work rules, fewer job classifications and the introduction of new technology, if they feel secure and empowered.

  This is a primary objective of the Government's Labour Relations Act reforms. They are designed to respond to major changes in the workplace since the last major reform of the Act, including the addition to the workforce of one million women and the doubling of the number of part-time workers.

  The Government's legislation is also intended to promote cooperation through the encouragement of more discussion between union and management of workplace issues and the creation of a Work Organization and Partnership Development Service to assist in developing strategies for adapting to change.

- Implementing a community-based development policy, to build capabilities at the community level. This will involve fostering partnerships among companies, municipalities, trade unions, the Government, educational institutions, and social action groups.

LINKAGES AT THE COMMUNITY LEVEL

Many Ontario communities are developing mechanisms to support and promote local technology-based companies:

- The Ottawa Carleton Research Institute draws on the resources of local high-tech firms, universities, colleges and municipalities for many projects, including the development of biotechnology in the region.
- Canada's Technology Triangle Organization, supported by the municipalities of Kitchener, Waterloo, Cambridge and Guelph and their academic institutions and business organizations, supports technology transfer and skills training. Information networks have been organized for specific sectors: plastics, environmental technologies, computer technologies, material technologies, manufacturing and systems technologies, and biotechnologies.
- In Hamilton-Wentworth, a consortium of local agencies is setting up the Greater Hamilton Technology Enterprise Centre and a technology transfer and diffusion unit.
- More than one hundred members of the Greater Toronto Area biotechnology community have formed a network, called the Toronto Biotechnology Initiative (TBI), to increase the role of the area as a leading commercial and research centre for biotechnology. It is supported by the Municipality of Metropolitan Toronto and the City of Toronto.
- Ontario co-sponsored a national conference in Hamilton in 1991 to develop the technology centre concept. This concept involves mobilizing local stakeholders to encourage community or regional initiatives that use knowledge and technology to improve local conditions.

CHAPTER 6

TAKING ACTION TOGETHER

The provincial economy has important underlying strengths. These strengths include a well-educated labour force, a well-developed physical and communications infrastructure, a strong resource base, a strategic location in North America, and the highest concentration of head offices in Canada. Ontario remains one of the most productive economies in the world.

This paper describes the Government's approach to industrial policy. It is a common sense approach that builds on our strengths. It also looks ahead to the new global economy in which competitive advantage can be created through innovation.

The *Industrial Policy Framework for Ontario* proposes a common direction that can provide the basis for constructive action by all economic partners: raising value added in all sectors and regions of the province. Moving to higher value added activity is the preferred alternative to a strategy of relying on low-cost labour and eroded social and environmental standards to achieve competitiveness. A higher value added economy is a higher-wage, higher-skill economy. Ontario's chief competitors are other advanced economies that are also increasing value added, rather than those countries depending primarily on low-cost labour for their competitive advantage. The long-term success of Ontario companies will depend on increasing productivity, not lowering wage costs.

Our common goal must be to build the capabilities that lead to higher value added activity. The Government intends to focus its efforts on strengthening the competitive fundamentals, the processes essential for developing Ontario's economic capabilities and improving our standard of living.

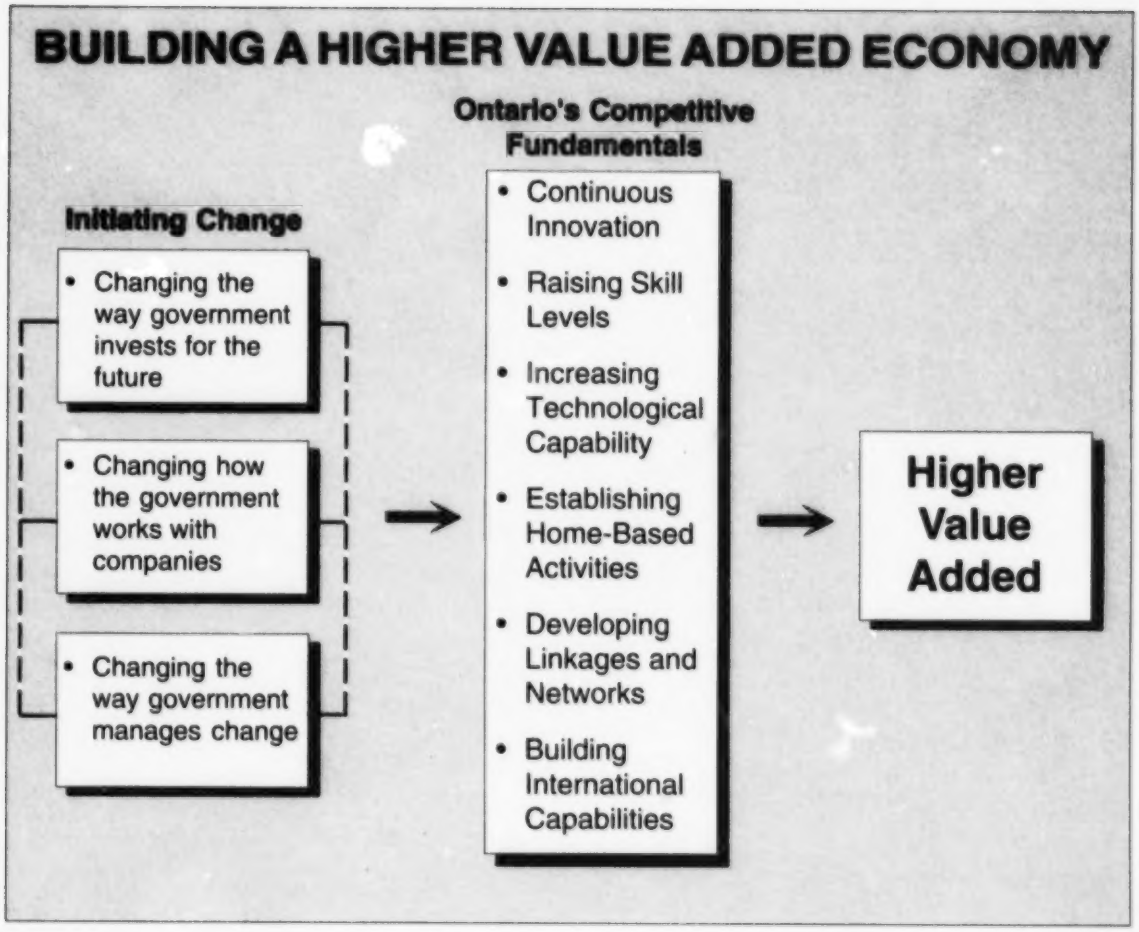
The paper sets out a series of changes that the Government intends to make to strengthen the competitive fundamentals: changing the way we invest for the future, how we work with companies and how we deal with emerging global realities. Some of these changes are already under way, such as the new assignments of sectoral responsibilities to government ministries and the measures announced in the 1992 Budget. Others require further development.

No government can create wealth or increase value added on its own. The responsibility for economic development must be shared by governments at all levels, by companies of all sizes, by communities and regions throughout the province, by workers in all kinds of businesses and by our institutions.

The Government invites its economic partners to work cooperatively to build a higher value added economy and to consider the actions that they could take either with the government or independently to strengthen the competitive fundamentals.

The *Industrial Policy Framework for Ontario* represents a key step in a dynamic process of reshaping the Government's approach to industrial policy. Following the release of this paper, the Government will establish a process to implement the policy directions in the paper and to develop additional policies and programs to support the framework.

Ontario faces a difficult and challenging future but one full of opportunity. Squeezed by falling revenues and shortfalls in federal transfers, and by the increasing demand for public services, we realize that we will have to do more with less. Our government is committed to meeting the challenges before us and to seeking the opportunities that will fuel economic renewal.


BUILDING A HIGHER VALUE ADDED ECONOMY
Initiating Change
• Changing the way government invests for the future
• Changing how the government works with companies
• Changing the way government manages change
Ontario's Competitive Fundamentals
• Continuous Innovation
• Raising Skill Levels
• Increasing Technological Capability
• Establishing Home-Based Activities
• Developing Linkages and Networks
• Building International Capabilities
Higher Value Added

INDUSTRIAL POLICY FRAMEWORK

BACKGROUNDERS

- *Why Have an Industrial Policy?*
- *A Summary of the Policy*
- *The Higher Value Added Concept*
- *Continuous Innovation*
- *Raising Skill Levels*
- *Increasing Technological Capabilities*
- *Establishing Companies' Home Base Activities in Ontario*
- *Developing Linkages and Networks*
- *Building International Capabilities*
- *Sector Partnership Fund*
- *Strategic Groups of Companies*
- *The Role of Small Business*

WHY HAVE AN INDUSTRIAL POLICY?

Ontario needs an industrial policy because:

- *The global economic environment is changing;*
- *The provincial economy must overcome some structural problems;*
- *Competitive advantage must be created.*

GLOBAL ECONOMIC CHANGE

The international economic environment that Ontario faces in the 1990s is dramatically different from the world of the 1950s to mid-1980s. Intensifying international competition, the development and application of new technologies, and the growing concern about the environment are changing the basis for success in advanced economies. These changes are having a profound impact on Ontario – on the opportunities available to Ontario companies, on the kinds of companies that can succeed from an Ontario base, and on the capabilities that lead to long-term growth and competitiveness.

The scope and pace of these changes requires an economy that is quick to adjust and restructure – an economy that embraces change. Other advanced economies have done a better job than Ontario at positioning themselves to take advantage of global economic change. Their actions are guided by a common sense of direction, which allows for closer working relationships between governments, workers and businesses.

STRUCTURAL PROBLEMS

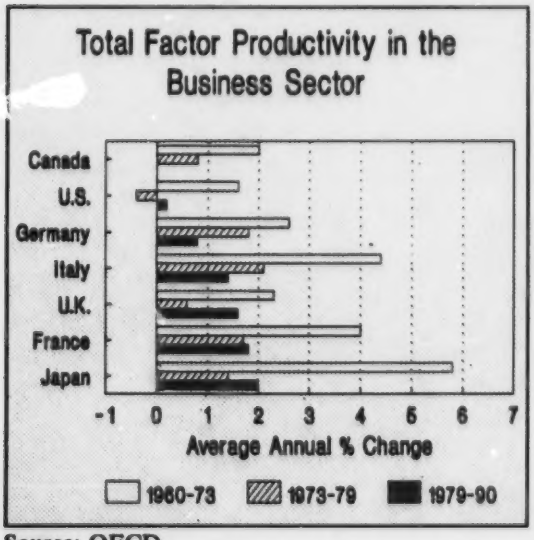
Underlying structural weaknesses in the provincial economy hamper Ontario's ability to adjust to changes in the global economic environment. Over the years Ontario's comparative economic success has masked many of these problems. They are now becoming more important for future economic performance:

- Low levels of research and development and slow rates of technological diffusion. Although Ontario out-performs Canada as a whole, it under-performs its competitors in research and development and has been slow to adopt new technologies;
- Lack of well-established clusters of firms. It is becoming widely recognized that over the long term, sustainable competitive advantages develop in clusters of linked industries;
- A shortage of medium-sized and large firms with a home base in Ontario. The branch-plant organization of much of the Ontario economy means that local skills are not fully developed and that fewer spin-off industries are created;
- Over-reliance on a single export market. Ontario has not taken full advantage of its cultural and linguistic diversity to move into international markets other than the United States;

- Under-investment in training and slow adoption of flexible workplace organizations compared to other advanced economies. Training and organizational innovation are critical to improving the quality of the work force; and,

- Inadequate financing for technology-oriented companies. This is in part due to the lack of experience of the province's financial community in working with technology-based firms.

One consequence of Ontario's structural weaknesses is poor productivity performance. Productivity growth is the basis for improvements in our standard of living. In the business sector, Canadian total factor productivity declined from an average annual growth rate of 2% during 1960-73, to 0.8% during 1973-79, and to 0% during 1979-90. Canada's growth in total factor productivity was the lowest among the G-7 countries in the 1980s. Indications for Ontario suggest the province has fared no better than Canada.



Source: OECD

A SUMMARY OF THE POLICY

Ontario's industrial policy is an organized way for governments, workers, businesses and communities to shape the future industrial structure of the Ontario economy. It provides a framework that will lead to increases in our standard of living.

The industrial policy framework will help the province to deal effectively with changes in the global economic environment, to overcome structural weaknesses in the Ontario economy, and to create competitive advantages central to the long-term economic development of the province.

The policy focuses on developing higher value added activities because these activities are the most promising means for creating the wealth necessary to support high skill, high wage jobs. Increasing value added benefits everyone – companies in the form of profits, and workers in the form of better wages.

In a high income economy like Ontario's, lower costs and better products will increasingly depend on innovation and skills. This represents a higher value-added, rather than a lower wage path of development.

If Ontario is to move to a higher value added economy, the province must build and strengthen Ontario's competitive fundamentals. These are processes that create the capabilities needed to produce higher value added in the economy.

Ontario's six competitive fundamentals are:

- Continuous Innovation
- Raising Skill Levels
- Increasing Technological Capabilities
- Establishing Companies' Home Base Activities in Ontario
- Developing Linkages and Networks
- Building International Capabilities

The Government will emphasize these fundamentals because they are proven ingredients in the success of other advanced economies, because they build on Ontario's strengths as a means to meet the challenges facing the province, and because they create indirect and spin-off benefits throughout the whole economy.

Focusing on the competitive fundamentals and increasing value added activities have implications for change throughout the economy – for firms, for sectors, for regional development and for the economy as a whole. The Government will continue to act in three areas that can have the greatest benefit in strengthening Ontario's competitive fundamentals:

- Changing the way we invest for the future: Putting new emphasis on investing in people and infrastructure.
- Changing how we work with companies: Emphasizing the development of sectoral strategies and support for strategic groups of companies.

- Changing how we manage economic change: Finding better means for coping with significant changes by helping to create a more adaptable economy.

Although Government has an important role to play in the economic development process, Government alone can't make the policy work. Everyone must work together to develop an economy with the built-in capacity to upgrade and continuously move to higher levels of value added.

The industrial policy is not a budget, a blueprint for the economy, or a short-term counter-cyclical policy. It is a made-for-Ontario industrial policy with many distinctive features:

- It is market-led, with an active role for Government;
- It focuses on winning activities – the competitive fundamentals;
- It expands the boundaries of innovation beyond technological innovation;
- It recognizes that co-operation and competition are complementary;
- It attempts to integrate economic, social and environmental policy;
- It emphasizes fairness in the restructuring and adjustment process.

Ontario's industrial policy framework will help create a common sense of direction and shape the way that the Government works with business and other economic partners to create a higher value-added economy.

THE HIGHER VALUE ADDED CONCEPT

Moving to higher value added activities is the key organizing principle underlying Ontario's industrial policy framework. The benefits of moving in this direction will be felt province-wide.

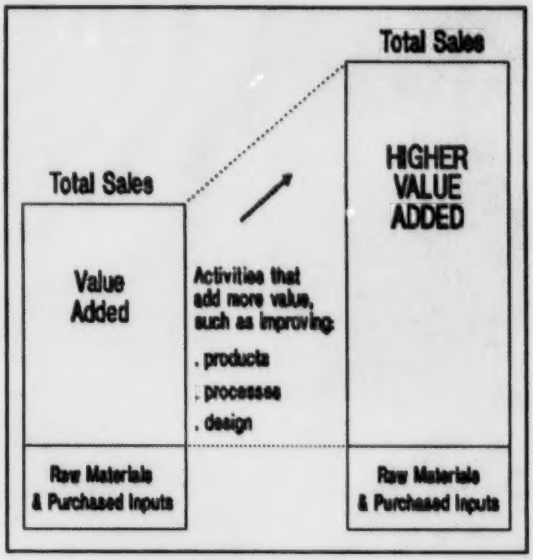
WHAT THE HIGHER VALUE ADDED CONCEPT MEANS

Value added is the difference between a company's total sales and the cost of raw materials and the goods and services it buys from other companies. From value added, companies pay wages and salaries, profits, taxes, interest and depreciation. The higher the value added, the larger the income that can be shared by companies and workers.

Adding value means producing more with what you have – creating more "value" for customers. It means working smarter.

Companies can increase value added by becoming more efficient and reducing unit costs. Alternatively, they can produce something that is worth more to their customers. In today's competitive environment, companies are finding that they have to do both.

Higher value added activities include continuous improvement in design and engineering, research and development, training, marketing, quality control, and customer service. Other activities such as organizational innovations, more work-place flexibility, adoption of the state-of-the-art technologies, and reducing cycle times can dramatically reduce cost or material inputs and thereby increase value added.



Moving to higher value added is not a "one-time" event. It should be seen as a process, not a destination. Higher value added is a result of both doing different things and doing them differently. The important thing is to keep moving in the right direction.

FOCUSING ON HIGHER VALUE ADDED MAKES SENSE FOR ONTARIO

Engaging in higher value added activities throughout the economy is the most promising means for creating the wealth necessary to support high-wage, high-skill jobs, increasing our standard of living, and managing the restructuring that is currently underway.

Given Ontario's economic history and current circumstances, an effective provincial industrial policy must meet four tests:

- It must build on existing strengths and address areas of structural weakness in the economy.

- It must create competitive advantages that are sustainable in international competition with other advanced economies.

- It must reflect our values as a society.

- It must provide a common basis for action by government, business, labour and communities.

The concept of moving to higher value added activities meets all four tests.

First, it addresses the structural weaknesses. The kinds of things that need to be accomplished to increase value added, such as increasing research and development and training, are the same things that need to be accomplished to overcome the province's structural weaknesses.

Second, adding value creates competitive advantage in both domestic and international markets, where quality, market position and cost depend increasingly on innovation and skills. Ontario's chief competitors are other advanced economies that are moving towards higher value added activities, rather than countries that depend primarily on low cost labour for their competitive advantage.

Third, the pursuit of higher value added is consistent with Ontario's values as a society. Economic value can be added in a manner consistent with social and environmental values. Social investment can upgrade the quality of the labour force by increasing equity and raising skill levels, a necessary part of moving to higher value added activity. Environmental values are also consistent with a higher value added economy. The long-run integration of economic and environmental policy depends on producing the same or more value with fewer resources. Green products can command higher prices and greener processes can lower costs, both of which increase value added.

Finally, higher value added provides a common basis for Ontario's economic partners – business, workers, institutions and communities – to work towards continuous upgrading. The pursuit of higher value added activity will lead to results that people care about – more and better jobs, more wealth creation, more profitable companies, and a higher standard of living.

GETTING THERE

Moving to a higher value added economy is not about the Government deciding which industries are going to be the "winners" in the future and which are going to be the "losers." The higher value added concept is relevant for all industries and regions of the province.

The Government will encourage the shift towards higher value added by strengthening Ontario's competitive fundamentals. To strengthen these competitive fundamentals, the Government will make changes in three key areas: changing the way we invest for the future, changing the way we work with companies and changing the way we manage economic change.

THE COMPETITIVE FUNDAMENTALS

CONTINUOUS INNOVATION

Continuous innovation means a determined commitment to develop and apply new ideas that add value to what a company does. It is continuously striving to make something that is simply better into the best.

THE IMPORTANCE OF CONTINUOUS INNOVATION

The capacity for continuous innovation will be the hallmark of the successful economies and companies of the future. The need to innovate has emerged as a competitive fundamental in the 1990s for several reasons:

- New technologies are making product cycles shorter and shorter, forcing companies to bring new goods and services to customers more quickly;
- Trade liberalization means that Ontario companies not only face new competitors but also have access to a host of new market opportunities; and,
- Consumers are demanding more sophisticated products and services, which is forcing companies to become more responsive and adopt more efficient and flexible production methods.

In the face of these and other challenges, innovation can no longer be seen as a one-time, discrete activity. Successful companies and economies will be those that continuously improve products, services and processes to increase quality or reduce cost.

Although technological change drives much innovation, it is by no means its only source. Improvements at any point in the process of adding value can constitute innovation, including changes in marketing, financing, product design, distribution channels, work organization and production processes.

In dynamic companies, the process of continuous innovation involves both managers and workers. Enlisting the commitment, knowledge and skills of workers is critical to achieving the highest possible levels of innovative performance.

The concept of continuous innovation is closely tied to Ontario's other competitive fundamentals, such as raising skill levels and increasing technological capability. Highly skilled workers are better positioned to help companies increase their innovative activities. Increasing technological capabilities equips companies with the tools necessary to innovate continuously.

The value of innovation to the economy goes well beyond the returns that can be captured by a company and its shareholders. Innovation demonstrates new approaches of potential value to other companies and expands business opportunities. When a firm innovates, it is likely to make demands that require its suppliers to

Successful Firm-Level Innovation

A recent study by the Science Council of Canada, "Reaching for Tomorrow," stresses the importance of innovation. Firms that innovate continuously:

- are people-centred
- forge extremely strong linkages with customers
- coordinate the activities of business units in the company
- show a strong corporate-wide commitment to innovation.

upgrade and innovate, and its new ideas may spur further innovation by customer firms. By stimulating this process of economic development, continuous innovation fuels the growth of our standard of living.

Encouraging Continuous Innovation in Ontario

The Government intends to encourage continuous innovation.

A well-developed technological infrastructure helps companies to increase their technological capability, which is a key ingredient for continuous innovation. To strengthen Ontario's technological infrastructure, the Government has renewed the Centres of Excellence for a second five-year term and increased funding for ORTECH International.

The Government will help to develop innovative growth firms in Ontario through a variety of measures, including the new Ontario Innovation and Productivity Service and the proposed Ontario Investment Fund.

The Premier's Council Task Force on the Organization of Work is identifying successes in achieving more flexible organizational structures in the workplace. The Ministry of Labour's proposed Work Organization and Partnership Development Service will also encourage new approaches to work place organization.

Ontario's new Sector Partnership Fund will help sectors move to higher value-added activities by building cooperative partnerships between business, labour, government, and institutions.

THE COMPETITIVE FUNDAMENTALS

RAISING SKILL LEVELS

Raising skill levels is a prerequisite for creating competitive advantage through higher value added activities and for adjusting to structural changes in the economy.

How Higher Skills Create Competitive Advantage

Education, training and advanced skills are key building blocks of a higher wage, higher value added economy. To increase our current high standard of living, Ontario must create a more skilled and flexible labour force that can take advantage of the opportunities that economic change brings.

Higher skill levels bring more sophisticated tasks within reach, enable firms to satisfy customer needs more fully and in new ways, and make innovation possible. With greater skills, workers become more flexible and creative and are able to perform most activities better. They are also better equipped to participate in changes in work place organization and the introduction of new equipment, incorporating state-of-the-art technology.

As the economy moves towards a higher value added industrial structure, the level of basic skills expected of workers steadily rises. Basic literacy and numeracy skills are now preconditions for the adoption of advanced technologies and new approaches to the organization of work. These skills are the platform for building a highly and flexibly skilled work force capable of moving between firms and industries.

Highly skilled knowledge workers, who develop, design, arrange for financing and market differentiated products, services and proprietary methods of production, help companies respond to international competitive pressures. Their specialized skills support existing and emerging areas of competitive advantage in the Ontario economy.

Raising skill levels also supports the attraction and retention of investment. As companies move routine economic activities to locations where they can take advantage of low input costs, a highly skilled and specialized work force is one of the surest ways of attracting and retaining international investment.

The Effect of Restructuring on Workers' Skills

Changes in technology and in the structure of Ontario's economy are affecting the skills required by workers and the kinds of employment that will be available. A mismatch in skills and employment opportunities increased the duration of unemployment for many workers in the 1980s.

The restructuring of the economy over the last 30 years has resulted in a growing proportion of knowledge workers and reduced opportunities for unskilled and semi-skilled workers to obtain well-paying jobs.

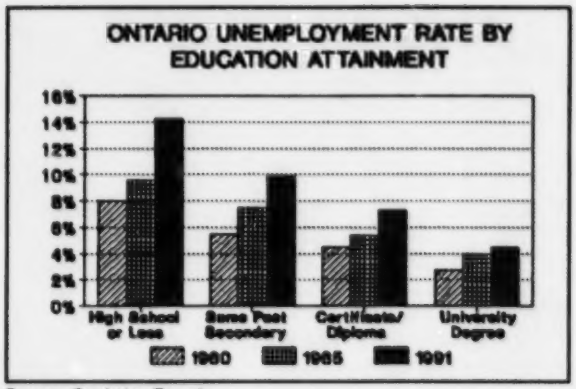
Not only will knowledge workers continue to account for a large share of new jobs, but the skill requirements of virtually all jobs are expected to increase. This is part of the shift towards a higher value added economy with more highly skilled, better paid, and more satisfying jobs.

The share of jobs accounted for by managerial, administrative, professional and technical occupations almost doubled between 1961 and 1986, increasing from 12.1 to 23.8 percent of all jobs. What is even more striking is that these occupations accounted for 37 per cent of the new jobs created in the same period and 46 per cent of the new jobs created between 1985 and 1990. The share of jobs characterized by heavy manual labour or repetitive unskilled or semi-skilled tasks has declined.

This shift in the kind of jobs that are available is affecting the employment opportunities of some workers. The Economic Council of Canada reported that intermediately skilled workers in the goods industries accounted for a significant proportion of unemployment in the 1980s. Many of these individuals were out of work for more than one year because of a decline in the number of jobs requiring their skills. The evidence shows that skill levels relate directly to employment prospects.

Government Initiatives to Raise Skill Levels

The Government has increased spending on training, targeted assistance to the long-term unemployed and is enlisting wide participation to raise skill levels in the province.



Source: Statistics Canada

Ontario government spending on training and adjustment programs increased to $930 million in 1992-1993, a jump of 24 per cent over the previous year's spending.

In the last budget the Government announced a three-year, $1.1 billion **Jobs-Ontario***TrainingFund* to address the needs of the long-term unemployed.

A centrepiece of the Government's efforts will be the new Ontario Training and Adjustment Board. It will provide cooperative leadership of Ontario's labour force development system, with participation from business, labour, equity groups, educators and trainers.

The Ontario Training and Adjustment Board will assume authority for reform of the apprenticeship system and programs which target three groups: employed workers at the firm and sectoral level; workers displaced by plant closure, layoff or technological change; and workers seeking entry to the labour market. The Board will emphasize training and skills-upgrading as a continuous process building on sound foundation skills acquired through formal education. Training in portable, generic and certifiable skills will be stressed.

THE COMPETITIVE FUNDAMENTALS

INCREASING TECHNOLOGICAL CAPABILITIES

Technology has become the foundation for creating and sustaining competitive advantage in advanced economies. Ontario's technological capabilities provide Ontario firms with the tools to develop new technologies and to make effective use of existing technologies. As the pace of technological change quickens, so will the need to increase Ontario's technological capabilities.

THE KEYS TO INCREASING TECHNOLOGICAL CAPABILITIES

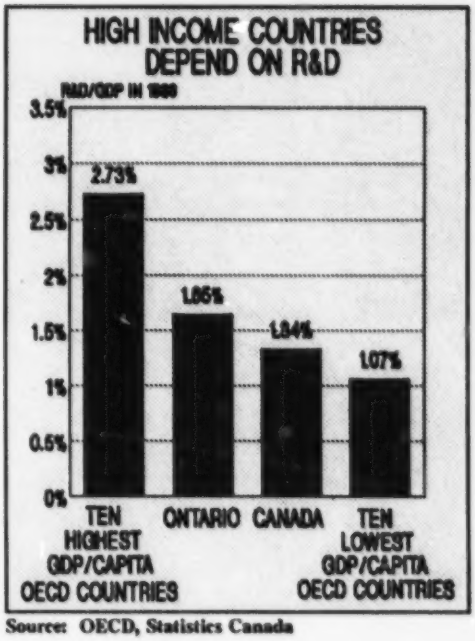
The keys to increasing Ontario's technological capabilities involve:

- Increasing the level of R&D undertaken by Ontario firms;
- Encouraging the diffusion of advanced technologies throughout Ontario industry; and
- Strengthening Ontario's technological infrastructure.

Research and Development

Research and development is a key element in moving to a higher value-added economy. R&D leads to new products and services, new ways of doing things, and enables companies to adopt new technologies more readily.

Ontario's high income competitors have recognized the importance of technology and are investing a much larger share of their economic output in research and development. Ontario invests only 1.65% of its GDP in research and development, whereas many of Ontario's high-wage competitors are investing between 2.5% and 3.0% of GDP.



Source: OECD, Statistics Canada

Government support for R&D is necessary because individual companies invest less in R&D than is optimal for the economy. They are unable to capture all of the spillover benefits. However, despite generous tax treatment, the level of industrial R&D in Ontario remains low. One of the primary reasons for the low level of R&D is the relatively small number of companies with an Ontario home base in technology-intensive industries.

In the 1992 Ontario Budget, the Government announced that it will broaden eligibility under Ontario's Research and Development Super Allowance to encourage more Ontario companies to perform R&D. The Government has identified R&D performers as a strategic group of companies, and recognizes that they require specific support programs.

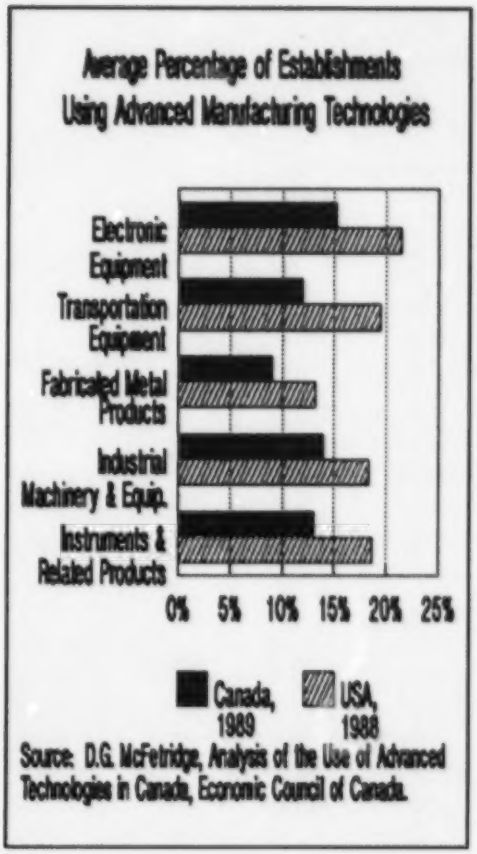
Technology Diffusion

Another key to upgrading Ontario's technological capabilities is encouraging the diffusion of advanced technologies throughout the economy. The adoption of advanced manufacturing technologies, which are often embodied in state-of-the-art equipment and systems, enhances the competitiveness of manufacturing firms in Ontario. It stimulates industrial R&D and is important for productivity improvements, quality control, and product and process innovations.

The evidence suggests that Ontario underperforms its competitors in technology adoption. A forthcoming study by Donald McFetridge shows that small and medium-sized Canadian manufacturing establishments lag their U.S. counterparts in the use of advanced manufacturing technologies. The gap is more pronounced the smaller the firm.

The diffusion of advanced technology is frequently inhibited by lack of knowledge and expertise, especially among small and medium-sized firms.

The proposed Ontario Innovation and Productivity Service will help Ontario's innovative growth companies access federal and provincial technology assistance programs and provide them



with an assessment of their operations, including their technology base.

Technological Infrastructure

Increasing the province's technological capabilities includes investing in Ontario's technological infrastructure. The institutions, organizations, and the facilities that make up Ontario's technological infrastructure enable firms to develop and improve their technological capabilities. The Government recently renewed the Ontario Centres of Excellence program and substantially increased its grant to ORTECH – Ontario's provincial research organization.

THE COMPETITIVE FUNDAMENTALS

ESTABLISHING COMPANIES' HOME BASE ACTIVITIES IN ONTARIO

Companies with an Ontario home base set their overall business strategy and carry out key management functions in the province. The "home base" is the place where a firm's essential competitive advantages are developed and sustained and where higher value added activities are concentrated.

THE IMPORTANCE OF HOME-BASED COMPANIES AND ACTIVITIES

Ontario home based companies perform their higher value added activities in the province. These include strategic marketing, financing, R&D, product design, advanced production, acquisitions and divestures. The company's lead plant or service operation is normally located in Ontario.

Home base activities translate directly into better jobs in Ontario.

The notion of a home base is about behaviour in Ontario, not about corporate control. Global corporations sometimes have multiple home bases – various countries are the home base for different lines of business. Foreign controlled companies can act as home based firms if they have a world product mandate or some other arrangement that effectively gives them strategic autonomy for their business operations in Ontario.

Global competition has increased the importance of a competitive home base. With trade barriers falling, firms are locating their home base activities in economies that provide strong technological capabilities and advanced skills.

Companies with a home base in Ontario help accelerate economic development by expanding the pool of technology and skills available to other Ontario firms. From an expanded pool of technology and skills, new business opportunities emerge and more spin-off companies are created.

As well, home based companies help create strong linkages with other Ontario companies and sectors. In their own drive to innovate continuously, they are more likely to demand innovation from their Ontario suppliers and to have valuable information on future industry developments to share with other firms.

FOSTERING THE DEVELOPMENT OF HOME-BASE ACTIVITIES

The Government's approach to developing home base activities in Ontario will focus on:

- Encouraging companies to establish or expand their home-base activities in the province.
- Increasing the number of Ontario's medium-sized and large, home-based firms.

To encourage companies to establish or expand their home base activities in Ontario, the Government will act to strengthen the province's technological

infrastructure and raise the skill levels of its workforce.

Through a new Investment Development Office, the Government will encourage foreign investors to locate their home base, high value added activities in Ontario. The Office will also help retain existing investments.

To help increase the number of Ontario's medium-sized and large home-based firms, the Government will target assistance to innovative growth firms and R&D performers.

FIRMS DIFFER IN THE EXTENT TO WHICH THEY LOCATE KEY ACTIVITIES IN ONTARIO

Home based companies

- Key management functions are located in Ontario, including responsibility for overall business strategy, international marketing strategy, financing strategy, decisions on acquisitions and divestures, R&D and new product/process innovation. The firm's lead plant or service operation will normally be located in Ontario.

Fully integrated business operations

- Key intellectual activities related to production are undertaken in Ontario. These activities include product design and development, process engineering, manufacturing, supplier management, and long-term business strategy for the product line.
- Ontario is used as a platform to compete in global markets.

Plant complexes

- Some product components are fabricated or sourced locally (although the sourcing decision may be made at head office) and some local engineering and technical expertise are employed.
- The transfer and diffusion of foreign technology into Ontario is encouraged.
- Relatively mature products are manufactured.
- International marketing strategies originate from head office.

Assemblers

- Local manufacturing, using designs, processes, and management approaches developed elsewhere.
- Jobs provided for assembly workers and some middle managers and engineers.

Importers

- Activities limited to sales, marketing and distribution of goods produced elsewhere.

Source: Ministry of Industry, Trade and Technology

THE COMPETITIVE FUNDAMENTALS

DEVELOPING LINKAGES AND NETWORKS

Networks and linkages can contribute powerfully to the achievement of competitive advantage by encouraging mutually beneficial cooperation within and across industrial sectors, improving information flows, and enabling companies to draw on institutional knowledge.

THE IMPORTANCE OF DEVELOPING LINKAGES AND NETWORKS

Networks and linkages involve interdependencies arising from buyer-supplier relationships or common reliance on a shared skills or technology base. Networks of linked firms, industries and institutions can achieve competitive advantage more readily than an individual firm or industry. They are characterized by an interplay of competitive and cooperative relationships, which help to create competitive advantage by stimulating continuous innovation, technology transfer, and skills training.

Networks and linkages are important in the development of advanced economies. This is particularly so for an economy such as Ontario's in which many of our larger companies are still small by global standards. Some of the disadvantages of small size can be compensated for through cooperation or interaction with other companies.

The synergy generated through co-operation among firms and institutions can spark new ideas and make new approaches possible. Through cooperation companies can carry out projects or make investments in specialized infrastructure that are too large or ineffective for a single firm to tackle alone. Cooperation enables firms to undertake comple-

LINKAGES AND NETWORKS

Many metal stamping and steel suppliers recognized the need to transform their die design and sheet-metal forming activities from an art to a science-based trade. With assistance from the Manufacturing Research Corporation of Ontario (MRCO), one of Ontario's Centre's of Excellence, nine of these companies formed a consortium, known as Formtech. Formtech's research will lead to the development of an advanced computer modelling process for metal stamping.

Ontario's tourist operators work closely together to promote and market Ontario as a travel destination. Working with the Ministry of Tourism and communities, a common Ontario image is fostered.

Many high-tech companies in Canada's Technology Triangle (an area encompassing the cities of Cambridge, Guelph, Kitchener and Waterloo) recognized the need to develop a better synergy amongst themselves and to local institutions. With the help of the Kitchener office of MITT, the Information Technologies Research Centre (an Ontario Centre of Excellence) and the City of Waterloo, the Computer Technology Network was formed. The network provides information on issues of mutual concern related to marketing, export and general business practice.

mentary initiatives and make mutually-reinforcing investments.

Information flows that guide strategic decisions are also accelerated through linkages and networks. For example, when a firm places a demand on its suppliers to solve a new problem, it communicates important information about future industry trends as well as an opportunity for innovation.

Networks tend to be geographically concentrated and help to anchor companies in Ontario. Relocation outside Ontario would cause the firm to lose important ties with local suppliers, training centres, universities and research institutes.

Although linkages offer many benefits to companies, Ontario companies have not fully capitalized on these potential benefits as few linkages have been established.

How The Ontario Government will Encourage Linkages and Networks

The Government will develop linkages through the Sector Partnership Fund and other sectoral initiatives to increase private sector networks and increase sector capabilities.

The Government's technology programming will continue to encourage the development of non-traditional links between companies and between companies and institutions. Examples include: the Centres of Excellence, the University Research Investment Fund and the Industry Research Program.

The Government will continue to invest in sector- or network-specific types of infrastructure, including physical, technological and informational infrastructure. For example, the Government has committed $4.2 million to the Industrial Development Institute (IRDI). The Institute will foster ties between companies performing applied R&D in the tool, die, mold and related industries.

The Government's community-based policies will promote partnerships among the private sector, local, regional and provincial governments, educational institutions and social action groups.

The Ontario Training and Adjustment Board will provide a vehicle for fostering relationships among local governments, educational agencies, business and labour to develop a skilled labour force.

THE COMPETITIVE FUNDAMENTALS

BUILDING INTERNATIONAL CAPABILITIES

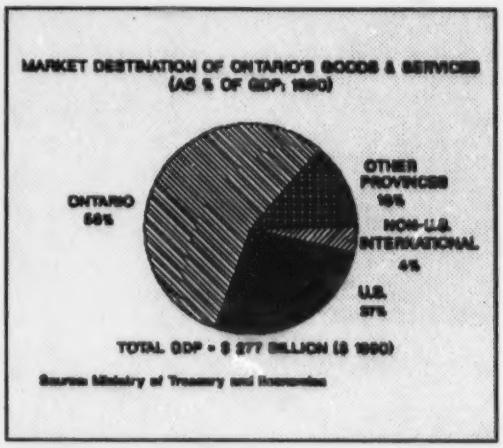
International capabilities comprise the knowledge and skills needed to export successfully, attract and make strategic foreign direct investments, participate in international alliances, and stay abreast of leading-edge technology. They enable a company to operate with a global perspective.

THE IMPORTANCE OF INTERNATIONAL CAPABILITIES

International capabilities are becoming increasingly important as more and more companies and industries are touched by global competition. For example, companies with local or regional markets can be exposed to international competitive pressures through import competition, or through suppliers or customers who compete internationally.

International trade in services is rapidly increasing as a result of recent advances in information technology, the broadening of trade agreements, the internationalization of financial markets and the increase in world travel.

Gaining international market share can be crucial to success in knowledge- and technology-intensive industries because it permits companies to spread fixed costs, such as R&D, widely. Companies that achieve high global market shares gain enduring competitive advantages over their competitors.



International capabilities are important for several reasons:

- The growth of most Ontario companies ultimately depends on exports because of the province's small domestic market. Ontario's economy is highly trade-dependent: Approximately 44 percent of Ontario's GDP is exported (including inter-provincial exports).

- Operating in the global arena exposes companies to new production, marketing and management techniques that may be more efficient and less costly than their own.

- Foreign investment by Ontario companies is sometimes a prerequisite for access to foreign markets. In this sense, it complements trade. Both incoming and outgoing investment can provide Ontario companies with access to capital and technology.

- International alliances are becoming an important means of gaining access not only to foreign companies' marketing, but to their technological expertise as well.

- Alliances among Ontario companies can also be part of a strategy to establish an international presence.

BUILDING INTERNATIONAL CAPABILITIES

Small- and medium-sized companies face particular difficulties in building international capabilities because of lack of information and know-how. These challenges are compounded by language and cultural barriers. The long-term growth and competitive success of these companies frequently depends on taking advantage of international trade, investment, and technology acquisition opportunities.

The Ontario Government has several trade assistance programs, as well as trade offices in key international locations. These programs and offices help Ontario businesses identify and penetrate new and existing export markets. The international offices are also a conduit for international investors considering Ontario as an investment location.

The Government also will:

- Refine trade assistance programs to help small- and medium-sized businesses better pursue export opportunities.

- Develop programs aimed at retaining existing investment and attracting new investment.

- Continue to assist companies in situations where its presence is helpful in winning foreign contracts.

- Assist Ontario exporters caught in trade disputes.

ONTARIO TRADE ASSISTANCE PROGRAMS AND SERVICES

Trade Expansion Fund: Provides up to $35,000 to cover 50% of eligible marketing costs incurred by Ontario exporters. Projects suitable for support include market research and planning, product modification and package design, merchandising and promotion, and the hiring of an export manager.

ODC's Export Support Loans: Establishes a revolving line of credit for Ontario-based exporters experiencing working capital problems when selling abroad.

New Exporters to Border States (NEBS): Representatives of Ontario firms are taken to a U.S. border point and ushered through an introduction to the exporting process.

Trade Missions and Exhibitions: Ontario export-ready firms are provided with opportunities to participate in selected international exhibitions and trade events.

Export Consulting Service: A team of international marketing consultants provides commercial intelligence on foreign markets and helps Ontario suppliers of goods and services develop marketing strategies for major markets abroad.

SECTOR PARTNERSHIP FUND

The Sector Partnership Fund (SPF), announced in the 1992 Ontario Budget, is a government-wide initiative that will provide $150 million over three years to approved cooperative sector projects that strengthen the competitive fundamentals and promote sector development.

SECTORAL APPROACH - MAKES SENSE FOR ONTARIO

The sectoral approach to economic development involves supporting cooperative projects undertaken by a group of firms within a sector or sector-level initiatives that benefit the sector as a whole.

The competitiveness of each firm within a sector is influenced by the competitiveness of and the quality of its interaction with other firms within the sector. The sectoral approach helps to develop dynamic networks of firms that mutually reinforce one another.

A sectoral approach helps groups of firms to undertake projects and meet challenges that would be too large or daunting for a single firm to undertake in isolation. An example of an activity that supports the entire sector is Ontario tourism advertising. The activity, while prohibitively expensive for a single business to undertake, collectively can be successfully accomplished for the benefit of all tourism businesses in Ontario.

The sectoral approach also emphasizes the establishment of long-term cooperative working relationships among business, labour, governments, and other bodies such as colleges, universities and professional organizations. The synergy generated through cooperation among these parties can spark new ideas and make new approaches possible.

Working with sectors complements other types of economic development programming. Sectoral initiatives enable the government to positively affect a much larger number of companies than would be feasible through individual company assistance alone.

Sector cooperation does not require the sharing of proprietary interests. It could involve activities such as pre-competitive research, sector marketing, or sector specific skills training.

THE SECTOR PARTNERSHIP FUND

The SPF will focus on sector development rather than supporting individual firms. The SPF will only fund projects that have been assessed as encouraging sectors to move to higher value-added activities.

Recognising the unique developmental needs of sectors, the design of the SPF is based upon four principles:

- ***Flexibility*** - Given that each sector has unique developmental needs, the SPF has been designed to allow for a flexible approach in funding projects.

- ***Cooperation*** - The SPF uses a multipartite consultative approach between business, labour, govern

ment and other stakeholders to build a broad endorsement of strategies and action.

- ***Leverage*** - The SPF is designed to encourage participants to commit resources to projects that will improve the performance of sectors.

- ***Accessibility*** - The SPF has been created to address the common challenges within a sector. Initiatives will be accessible to many or all sector participants.

Other levels of government, industry and labour, will be encouraged to commit resources to projects that will improve a sector's performance. Resource commitments by the private sector and other governments will depend on the size and type of project.

Programs eligible for SPF funding must be based on an agreed sector strategy or a strategic objective for a sector which provides a sound economic framework for the long-term development of the sector.

The Fund will support innovative activities that fall broadly into the following categories:

- Developing Sectoral Technological Capability
- Sharing Sector Knowledge
- Sector Promotion and Marketing
- Creating Specialized Infrastructure
- Focused Upgrading Programs

For the 1992-93 fiscal year $30 million will be allocated and for the 1993/94 and 1994/95 fiscal years, a further $120 million will be available for sector projects.

The Government will work with sectors that have developed a collective voice and identified useful projects that can be expected to increase the sectors' level of sophistication and competitiveness. As well, the Government recognizes that some sectors are only just beginning to emerge and therefore have unique developmental needs. To help ensure that these emerging sectors mature and expand, the Government will assist in the creation of viable sector organizations.

The Sector Partnership Fund will be available to all sectors in the provincial economy and will support actions that reinforce the competitive fundamentals and lead to higher value added activities.

Further details on accessing the Sector Partnership Fund will be forthcoming in September 1992.

STRATEGIC GROUPS OF COMPANIES

The Government intends to target assistance to groups of firms that will play a leading role in Ontario's shift to a higher value added economy.

The industrial policy identifies two strategic groups of companies that cross sectoral lines – innovative growth firms and R&D performers. These strategic groups of companies contribute directly to continuous innovation and increasing technological capability. They generate economic benefits that accelerate the economic development process and provide returns to the broader economy over and above the returns they provide to their own shareholders.

INNOVATIVE GROWTH FIRMS

Innovative growth firms are companies that have experienced exceptional growth because of their innovative business activities. These innovations can be in the form of product inventions, new ways of organizing production processes, novel management of technology and workers or creative marketing techniques.

Innovative growth firms are typically small dynamic companies with a home base in Ontario and a track record of exceptional growth. The activities of innovative growth firms have a significant impact on the provincial economy. Innovative growth firms are a key source of employment growth. They also demonstrate new business practices that other Ontario firms may adopt and may pull other firms along with them by encouraging innovation on the part of both suppliers and customers.

Innovative growth firms represent the future for Ontario's economy and their creation and growth should be encouraged. The rapid expansion of these firms requires the clearing of both financing and management hurdles.

Innovative growth firms may experience difficulties in finding sources of long-term patient capital. To address the unique financing needs of these firms, the Government has proposed the creation of an Ontario Investment Fund as a new source of patient capital.

The Ontario Investment and Worker Ownership Program will also improve the availability of long-term investment capital through equity financing. This Program provides incentives to Labour Sponsored Investment Funds that are geared towards small- and medium-sized companies.

To help meet the management needs of these rapidly expanding firms, the Government plans to create a new Ontario Innovation and Productivity Service. This Service will provide assistance to innovative growth firms in the areas of strategic planning, management, financing and technology.

R&D PERFORMERS

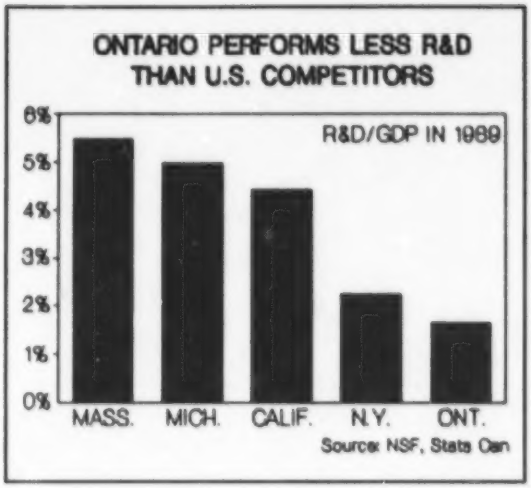
R&D performers are a strategically significant group of companies because these technology-intensive firms are

fundamental to wealth creation and the competitiveness of Ontario's economy.

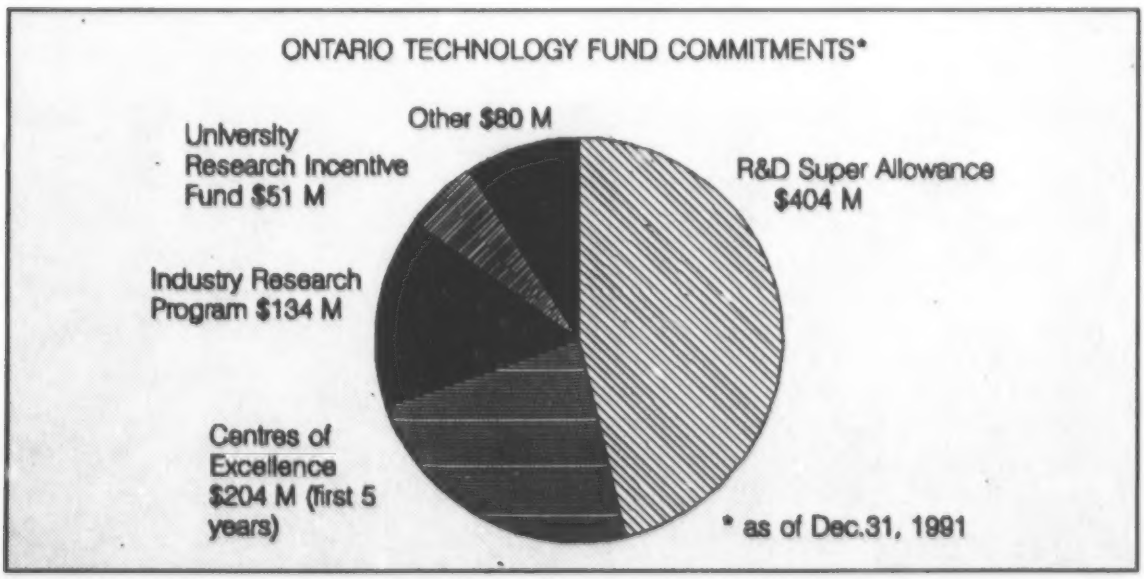
R&D is one of the key factors that contributes to technological innovation and productivity growth, thereby improving a firm's competitive position. R&D not only generates new knowledge, but also enhances a firm's ability to assimilate other innovations and identify new market opportunities.

In addition to the firm-specific advantages of R&D, there are economy-wide benefits that are significantly larger than those captured by individual performers. The knowledge created by one firm's R&D is often put to good use in alternative applications by firms within and without the performer's industry.

Ontario's investments in R&D significantly lag those of U.S. states that are our direct competitors. The low levels of privately funded R&D and the small number of firms that currently perform R&D may be attributed to the lack of home-based and technology-intensive firms in the province. This may result in sub-optimal levels of R&D funding. An objective of the Government's policy framework is to increase the number of firms performing R&D and the amount invested in R&D.



The central focus of the Government's commitment to R&D performers is the Ontario Technology Fund. The Fund provides substantial support for R&D through programs such as the R&D Super Allowance, renewal of the Centres of Excellence program, University Research Incentive Fund, Industrial Research Program, and the Technical Personnel Program.


ONTARIO TECHNOLOGY FUND COMMITMENTS*
Other $80 M
University Research Incentive Fund $51 M
R&D Super Allowance $404 M
Industry Research Program $134 M
Centres of Excellence $204 M (first 5 years)
* as of Dec.31, 1991

THE ROLE OF SMALL BUSINESS

Successful industrial policy in Ontario must consider small business as more than a job creator. The small business owner has much to contribute towards enhancing Ontario's competitive fundamentals. The Industrial Policy Framework recognizes the potential contributions of small business in creating a dynamic and innovative economy.

SMALL BUSINESS AND THE COMPETITIVE FUNDAMENTALS

More than 90 per cent of Ontario's businesses employ fewer than 100 people. These small businesses generate roughly one-half of the province's private-sector employment and over the period 1978-1988 created some 75% of net new jobs. But, job creation, important as it is, is only one of the potential contributions of Ontario's entrepreneurs.

The essence of entrepreneurship is innovation and Ontario's entrepreneurs have demonstrated a successful track record. A recent survey of Canada's fastest growing companies was dominated by entrepreneurial businesses bringing new products, services or methods of doing business to the marketplace. Twenty-seven of the top 50 firms in this survey resided in Ontario. The Ontario innovations cover a wide range of products and services including software, frozen foods and aerial platforms for construction. These innovative firms have increased revenues between 5 and 95 times their 1991 level. The smallest increase in employment was 60%.

The need for continuous improvement in the skills of employees is clearly recognized by the Ontario small business owner, and training programs must be designed to facilitate small business participation. Ontario's small businesses employ more than 1.5 million people, and are the overwhelming source of first jobs for young people and women entering the labour force.

Technological capability is a major factor in firm competitiveness in the new global economy. Small businesses such as Pavaco Plastics of Guelph have seen the incorporation of robotics and quality control technologies open new automotive after-markets. Cametoid Limited of Whitby has only 50 employees but its nine member R&D department is developing new protective coatings for gas turbine engines and space structures. Similar achievements can be accomplished in a majority of Ontario's small businesses. The small business owner is constrained only by his or her ability to link the business opportunity to the technology and confidently incorporate the new technology into his or her business operation.

During 1991-1992, more than 90,000 new small businesses were registered in Ontario and over the past 5 years registrations and incorporations of new businesses has exceeded 700,000. The high level of interest in entrepreneurship and the large number of Ontarians intending to start new businesses every year provide a base from which Ontario can increase its population of home based firms. To become medium- and large-sized companies, Ontario's small businesses require the management skills, infrastructure and financing

necessary to compete in the global economy.

More and more business is being generated through inter-corporate linkages and public and private sector networks. Niche markets, new technologies, corporate "spin-offs", and pre-competitive R&D offer increasing opportunities for Ontario businesses. The medium or large firm is more likely to have the available staff or professional support to identify and tap into these opportunities. The small business owner can contribute with special skills, niche products, and focused R&D but often does not have organized information on such opportunities and access to linkages and networks.

INDUSTRIAL POLICY AND SMALL BUSINESS

Ontario's entrepreneurs and small business owners have an important role to play in enhancing competitive fundamentals and ensuring continued prosperity and economic growth. The Government has recognized the potential contributions of small business and their unique needs by:

- Designing the Ontario Innovation and Productivity Service to assist small- and medium-sized growth firms in bringing in their innovations to market
- Implementing with the participation of small business, the Ontario Training and Adjustment Board to co-ordinate and simplify access to training
- Enabling the organization of new sources of financing, sensitive to the needs of local business and entrepreneurship
- Creating the Sector Partnership Fund, to expand inter-firm linkages and co-operative business opportunities
- Committing to streamline the relationship of government and business and reduce the paper-burden costs of licensing, regulation and taxation through Clearing the Path for Business Success.

Clearing the Path for Business Success was developed by the Government's Committee of Parliamentary Assistants for Small Business. Parliamentary Assistants are MPPs assigned to assist Cabinet Ministers. The Committee is mandated to consider the needs and interests of small business and make recommendations to the Government. As part of the industrial policy process, the Committee seeks the views of individual small business owners and their associations. For further information on the Committee, its activities and how you can participate, write:

Norm Jamison, Chairperson
Committee of Parliamentary
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Toronto, Ontario
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